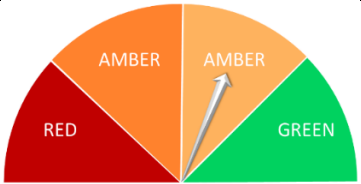


## 2022/2023 – Clwyd Pension Fund – Investment, Management and Accounting Risk Registers – External

### 53-2022/23 – Final report – July 2023

Assurance Opinion:	Number of Actions		Risks Reviewed as Identified in Scope
	Priority	Number	
 <p><b>Reasonable Assurance - Key Controls in place but some fine tuning required</b></p> <ul style="list-style-type: none"> <li>Some refinement or addition of controls would enhance the control environment</li> <li>Key objectives could be better achieved with some relatively minor adjustments</li> </ul> <p><b>Conclusion: key controls generally operating effectively.</b></p>	<b>High (Red)</b>	<b>0</b>	<p><b>Risk 1:</b> Funding, Investment and Governance risks, managed through the Clwyd Pension Fund Risk Register, are not being adequately monitored or mitigated.</p>
	<b>Medium (Amber)</b>	<b>1</b>	
	<b>Low (Green)</b>	<b>2</b>	
	<b>Total</b>	<b>3</b>	

#### Audit Background

The Clwyd Pension Fund (CPF) is a £2.3bn Local Government Pension Fund which provides retirement and death benefits for local government employees (with the exception of teachers, police and firefighters) in North East Wales and employees of other qualifying bodies which provide similar services.

The Council has delegated the key decision making and management of the Fund to a formal Pension Fund Committee which is supported by a Pensions Advisory Panel. The Corporate Finance Manager is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Fund matters and is driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (TPR) and legislation.

The day to day operations of the Fund are managed by the Head of Clwyd Pension Fund supported by the Deputy Head of Clwyd Pension Fund and the Pensions Administration Manager. The investment, management and accounting of the fund is overseen by the Pensions Finance Section. The Pensions Finance section is responsible for the day to day accounting and closure of the accounts, as well as the management of the Fund's assets.

This review was undertaken to assess the robustness of the processes in place for the effective management of Funding, Investment and Governance risks, with focus on:

- Adequacy of processes in place to oversee the management of Funding, Investment and Governance risks.
- Detailed testing of a sample of Funding, Investment and Governance risks from the Risk Register to ensure appropriate risk assessments are in place, risks outside of appetite are supported by action plans and expected target dates, risk ratings have been defined and risk owners have been assigned.
- Review of the processes for managing risks around climate change, recognising this is a particular issue for Clwyd Pension Fund.
- Consideration of whether the risk register should be updated to reflect recent changes made to FCC Risk Management Policy (assessment of value and benefits of using the new approach, in particular recognising the difficulties CPF have with risk scoring using the current system).

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#### Areas Managed Well

- Risk Policy in place which was approved by the Clwyd Pension Fund Committee in 2020.
- Good working relationships with external providers who provide guidance and professional specialist expertise (Aon & Mercers).
- Robust framework for regular reporting of management information at Board and Committee level.
- Risk Registers are in place and are regularly reviewed and updated and discussed both internally and with external partners.
- Risk ratings have been defined and risk owners have been assigned.
- Risk assessments carried out regularly to identify and manage the main risks to the achievement of the scheme’s objectives.
- Independent governance advisor commissioned annually to provide a report on the governance of the fund, including an assessment of the risk management framework and key areas of risk.
- Progress against responsible investment priorities including agreeing a new net-zero target for 2045 and interim carbon reduction targets, all of which are built into the Investment Strategy Statement.
- Introduction of a Climate Change report in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (“TCFD”).
- Introduction of the first Annual Stewardship Report.
- Ongoing work on delivering the Fund's responsible investment priorities, including formal request to Wales Pension Partnership (WPP) for the establishment of a Sustainable Active Equity fund in lowering targets for climate change.

Findings and Implications		Agreed Action	Who	When
<b>1 (A)</b>	<p><b>Control Issue: risks are not recorded in one place, as such they may be missed or appropriate mitigations may not be put in place.</b></p> <p>The CPF Funding, Investment and Governance risk registers detail risk mitigations (described as ‘internal controls in place’) and ‘further action’ to be taken to ensure risk is brought within risk appetite. The risk registers define a due date for ‘further action’ to be taken and the risk owner.</p> <p>The risk register details strategic risks and within the ‘further actions’ to manage the strategic risks are further risks which underpin the strategic risks. These risks are not reflected on the risk register and are not monitored centrally in one place.</p> <p>The risks may not be identified and/or forgotten if they are not documented.</p>	<p>URN 3561</p> <p>To support the strategic risk register we will produce a more detailed risk register for funding and investments, which will supplement and enhance the more high level risk register currently in place.</p>	<p>Debbie Fielder</p>	<p>31<sup>st</sup> March 2024</p>

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Findings and Implications	Agreed Action	Who	When
<p><b>2 (G) Control Issue: Weaknesses in evidence to support strategic risk monitoring / review</b></p> <p>Processes are in place for reviewing / updating the CPF risk registers including discussion of current and emerging risk at quarterly Pensions Advisory Panel meetings (supported by CPF advisors, Mercers and Aon) and ongoing review as part of the day to day operational management of risk.</p> <p>Whilst the quarterly Pensions Advisory Panel meetings are a forum for the consideration of risk, depending on the size of the agenda risk registers / emerging risk may not always be considered, instead being picked up in discussions outside these meetings.</p> <p>Whilst there are formal notes of discussion at the Pension Advisory Panel meetings, subsequent discussion around risk between the scheme’s professional advisors and management (which take place on a daily basis) are not minuted / logged.</p> <p>Evidence can be found in other notes/minutes or board minutes but are not contained in one central place or attached via links to the registers.</p> <p>Although all evidence was found to be in place during testing there is an implication that verbal decisions may not always be recorded or an audit trail exist to identify any changes made to risks.</p>	<p>URN 3566</p> <p>All changes to risks contained within the risk registers including notes and discussions will be held in one central place for ease of locating the details and to ensure a full audit trail.</p>	<p>Debbie Fielder</p>	<p>31<sup>st</sup> March 2024</p>
<p><b>3 (G) Control Issue: Appropriateness of the CPF risk scoring matrix</b></p> <p>The risk scoring matrix currently in use by CPF has been in place for some time. CPF consider the current scoring matrix is too broad / boundaries are too wide and as such it does not accurately reflect the progress of risk actions on residual risk scores within the Funding and Investment Risk Registers.</p> <p>The Council have recently introduced a revised risk scoring matrix which may address some of the issues CPF are currently experiencing. In addition, Mercers have provided an example of a risk scoring matrix used by other pension schemes, which allow for the scoring relating to Investment and funding of sub risks with</p>	<p>URN 3560</p> <p>Review of the current risk registers to identify if the CPF may benefit from the use of a different matrix and to ensure the current model is fit for purpose.</p> <p>This will be carried out as part of the risk policy review.</p>	<p>Debbie Fielder</p>	<p>31<sup>st</sup> March 2024</p>

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Findings and Implications	Agreed Action	Who	When
<p>an overall score for combinations of risks, which may address the issues around score boundaries being too wide.</p> <p>CPF have not assessed alternative risk matrices to determine if there would be benefits in revising their current approach.</p>			

Distribution List	
Philip Latham	Accountable Officer Responsible for the Implementation of Agreed Actions
Neal Cockerton	Chief Executive
Philip Latham	Head of Clwyd Pension Fund
Debbie Fielder	Deputy Head of Clwyd Pension Fund

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### Audit Priority:

### Appendix A

Priority of Audit Finding	
Priority	Description
High (Red)	Action is imperative to ensure that the objectives of the area under review are met
Medium (Amber)	Requires action to avoid exposure to significant risks in achieving the objectives of the area
Low (Green)	Action encouraged to enhance control or improve operational efficiency

### Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
Green - Substantial	<p><b>Strong controls in place (all or most of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist and are applied consistently and effectively</li> <li>• Objectives achieved in a pragmatic and cost effective manner</li> <li>• Compliance with relevant regulations and procedures</li> <li>• Assets safeguarded</li> <li>• Information reliable</li> </ul> <p><b>Conclusion: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</b></p>
Amber Green – Reasonable	<p><b>Key Controls in place but some fine tuning required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact</li> <li>• Some refinement or addition of controls would enhance the control environment</li> <li>• Key objectives could be better achieved with some relatively minor adjustments</li> </ul> <p><b>Conclusion: key controls generally operating effectively.</b></p>
Amber Red – Some	<p><b>Significant improvement in control environment required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively</li> <li>• Evidence of (or the potential for) financial / other loss</li> <li>• Key management information exists but is unreliable</li> <li>• System / process objectives are not being met, or are being met at an unnecessary cost or use of resources.</li> </ul> <p><b>Conclusion: key controls are generally inadequate or ineffective.</b></p>
Red – Limited	<p><b>Urgent system revision required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls are absent or rarely applied</li> <li>• Evidence of (or the potential for) significant financial / other losses</li> <li>• Key management information does not exist</li> <li>• System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources.</li> </ul> <p><b>Conclusion: a lack of adequate or effective controls.</b></p>