



Cumbria Pension Fund – Fund Policy Document

11 INTERNAL CONTROL & RISK MANAGEMENT POLICY

11.1. Background

- 11.1.1. Good internal controls are an important characteristic of a well-run Fund and one of the main components of the scheme manager's (i.e. the Administering Authority's) role in securing the effective governance and administration of the Fund. Internal controls can help protect the Fund from adverse risks, which could be detrimental to the Fund and its stakeholders if they are not mitigated.
- 11.1.2. Internal controls are systems, arrangements and procedures that are put in place to ensure that the Fund is being run in accordance with Local Government Pension Scheme regulations and other law. They cover:
- scheme administration and management,
 - monitoring that administration and management, and
 - the safe custody and security of Fund assets.
- 11.1.3. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.
- 11.1.4. It is not possible to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy.
- 11.1.5. Internal controls should address significant risks which are likely to have a material impact on the Fund. A risk-based approach should be taken to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.
- 11.1.6. A key determinant in selecting the actions to be taken in relation to a risk will be its potential impact on the Fund's objectives in the light of the Administering Authority's risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring.

11.2. Regulatory requirements and Guidance

- 11.2.1. The following regulations and guidance have been taken into consideration in the drafting of this policy:

11.3. Pensions Act 2004:

- 11.3.1. Sections 249A (5) and 249B of the Pensions Act 2004 require that the scheme manager of a public service pension scheme such as the Cumbria Local Government Pension Scheme must establish and operate internal controls.

These must be adequate for the purpose of securing that the Fund is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

11.4. The Pensions Regulator:

- 11.4.1. The Pension Regulator's General Code includes detail associated with internal controls. This requires Scheme Managers (i.e. administering authorities) such as Westmorland and Furness Council to establish and operate adequate internal controls and that these should address significant risks which are likely to have a material impact on the Fund.
- 11.4.2. The Code states that, before implementing an internal controls framework, Funds should carry out a risk assessment and produce a risk register which should be reviewed regularly. The impact of a risk on Fund operations and members and the likelihood of it materialising should be considered and Funds should focus on those areas where the impact and likelihood of a risk materialising is high.
- 11.4.3. Following this consideration of risk, the Code states that Funds should consider what internal controls are appropriate to mitigate the main risks identified and how best to monitor them. This should be a continual process and should take account of a changing environment and new and emerging risks.
- 11.4.4. Under section 13 of the Pensions Act 2004, The Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

11.5. Other relevant guidance:

- 11.5.1. CIPFA's publication 'Managing Risk in the Local Government Pension Scheme' (2018 edition)
- 11.5.2. CIPFA's publication 'Delivering Good Governance in Local Government: Framework' (2016 Edition)
- 11.5.3. CIPFA's 'Preparing and Maintaining a Funding Strategy Statement in the LGPS' (2016 Edition)
- 11.5.4. CIPFA's guidance on Investment Pooling and Governance Principles, (published in 2016)

11.6. Review of policy

- 11.6.1. The undertakings set out within this Internal Control and Risk Management policy will be reviewed and published annually.

11.6.2. This Internal Control and Risk Management Policy was reviewed in March 2024.

11.7. Application to the Fund

11.7.1. The Administering Authority adopts the principles contained in CIPF's Managing Risk in the LGPS document and The Pensions Regulator's General Code of Practice in relation to the Fund. This Internal Control & Risk Management Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

11.8. Responsibility

11.8.1. The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Director of Resources (S151 Officer) is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pensions Committee and Local Pension Board.

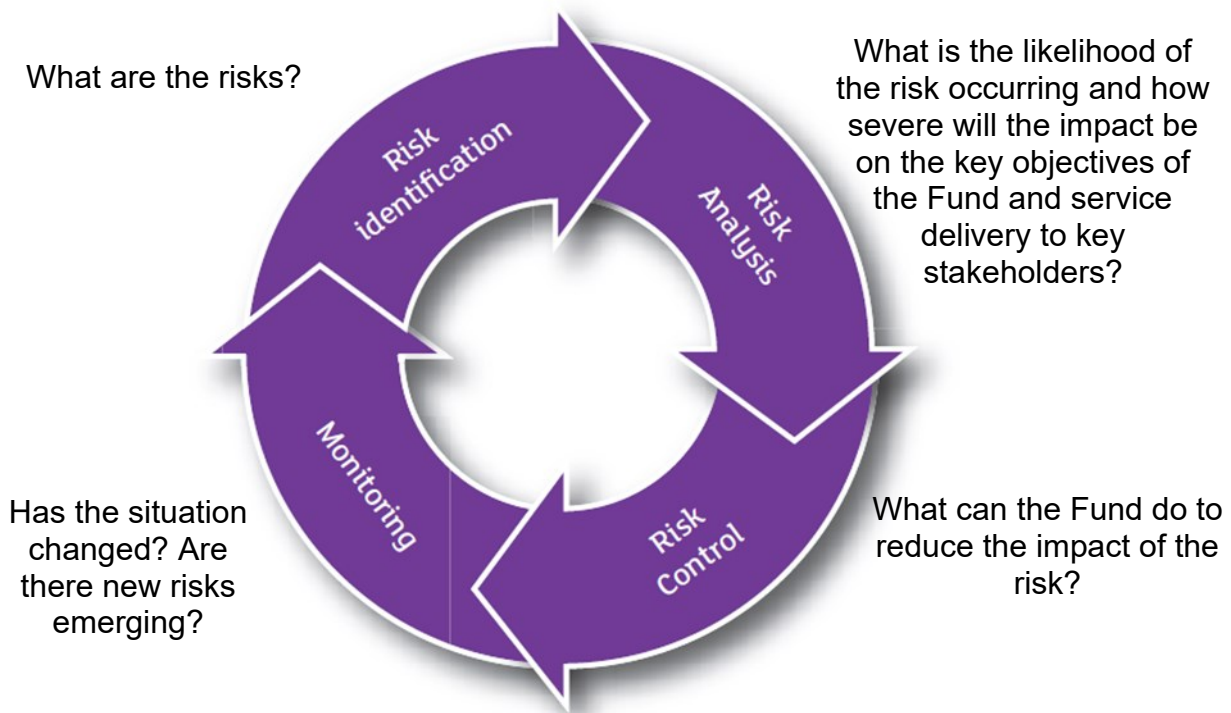
11.8.2. The Pensions Committee is charged with actively monitoring, on a quarterly basis, progress in relation to controls and actions taken to mitigate risk. Should any major risk emerge between meetings, this will be escalated by Fund Officers to the Chair and Director of Resources (S151 Officer).

11.8.3. The Local Pension Board, in its role in assisting the Administering Authority of the Fund to comply with relevant legislative requirements and ensuring the effective governance of the scheme, provides comment on and inputs into the management of risks.

11.8.4. It is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

11.9. Process

11.9.1. 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:



11.10. Risk Identification:

11.10.1. Risk identification involves assessing risks in the context of the objectives and targets of the Fund. 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 Fund.

11.10.2. Risks to the Fund are identified by a number of means including, but not limited to:

- Formal risk assessment exercises,
- Informal meetings of senior officers or other staff involved in the management of the Fund,
- Findings of External or Internal audit work,
- Performance monitoring (e.g. administrative KPIs),
- Monitoring against the Fund's Business Plan,
- Feedback from Local Pension Board and / or Pensions Committee meetings or directly from members,
- Liaison with other administering authorities and regional and national groups, including the Scheme Advisory Board, CIPFA, Border to Coast Pensions Partnership Ltd (BCPP) etc.,
- Legal determinations including those of the Pensions Ombudsman, The Pensions Regulator and court cases, and
- Business or service continuity plans developed by the Administering Authority.

11.10.3. Once identified, risks are documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks.

11.11. Risk Analysis:

11.11.1. 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, as illustrated in the table below.

Impact \ Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
5 Very Likely	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Very unlikely	1	2	3	4	5

11.11.2. When considering risk ratings, the Fund will have regard to the existing controls in place and these will be summarised in the risk register.

11.12. Risk Control:

11.12.1. The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Fund should understand the nature of risk and how the Fund systemically identifies, analyses, treats, monitors and reviews those risks.

11.12.2. Fund officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pensions Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls of the Fund could result in any of the following:

- *Risk elimination:* e.g., ceasing an activity or course of action that would give rise to the risk;
- *Risk reduction:* e.g. choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises;

- *Risk toleration*: e.g. where risk is unavoidable or more tolerable than alternatives, or where impact is assessed to be minimal. This is partially driven by the Fund's risk 'appetite'.
- *Risk transfer*: e.g. transferring risk to another party either by insurance or through a contractual arrangement.

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

11.12.4. Risk appetite: this is the level of risk the Fund chooses to take (or 'accepts') in pursuit of its strategic objectives. The Fund's overarching appetite for risk is conservative and focused on complying with its fiduciary duty and ensuring reliable delivery of quality services to stakeholders. The Fund recognises that it is not possible to completely eliminate all possible risks but seeks to recognise risks and deal with them appropriately. Further details on how this is taken into account in relation to the Fund's Investments can be found in the Investment Strategy Statement (section 4.5.2)

11.13. Risk Monitoring:

11.13.1. Risk monitoring is an ongoing part of the risk management cycle and is the responsibility of the Pensions Committee. In monitoring risk management activity, the Pensions Committee will consider whether:

- The risk controls taken achieve 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; and
- There are any lessons to be learned for the future assessment and management of risks.

11.13.2. Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to internal controls, will be provided to the Pensions Committee and Local Pension Board on a quarterly basis. An example of the summary page of the risk register (as at March 2024) is shown below, indicating the matrix of risk profiles that are considered.

PENSION FUND RISKS		Q1	Q2	Q3	Q4	Target	DOT	CORPORATE RISK PROFILE (Risk Score = Likelihood x Impact)																																				
1	1.1. Information security arrangements	15	15	15	15	15	→	<table border="1"> <thead> <tr> <th>Impact Likelihood</th> <th>1 Insignificant</th> <th>2 Minor</th> <th>3 Moderate</th> <th>4 Major</th> <th>5 Most severe</th> </tr> </thead> <tbody> <tr> <td>5 V. Likely</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4 Likely</td> <td></td> <td>2.4</td> <td></td> <td></td> <td></td> </tr> <tr> <td>3 Possible</td> <td></td> <td>2.3</td> <td>1.2; 3.3; 3.4</td> <td>3.5</td> <td>1.1</td> </tr> <tr> <td>2 Unlikely</td> <td></td> <td>1.3; 1.6; 2.5</td> <td>1.4; 3.2</td> <td>1.5; 2.2; 3.1</td> <td></td> </tr> <tr> <td>1 V. Unlikely</td> <td></td> <td></td> <td></td> <td>2.6</td> <td>2.1</td> </tr> </tbody> </table>	Impact Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe	5 V. Likely						4 Likely		2.4				3 Possible		2.3	1.2; 3.3; 3.4	3.5	1.1	2 Unlikely		1.3; 1.6; 2.5	1.4; 3.2	1.5; 2.2; 3.1		1 V. Unlikely				2.6	2.1
Impact Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe																																							
5 V. Likely																																												
4 Likely		2.4																																										
3 Possible		2.3	1.2; 3.3; 3.4	3.5	1.1																																							
2 Unlikely		1.3; 1.6; 2.5	1.4; 3.2	1.5; 2.2; 3.1																																								
1 V. Unlikely				2.6	2.1																																							
2	1.2. Pensions administration processes	9	9	9	9	6	→																																					
3	1.3. Scheme member communication	4	4	4	4	4	→																																					
4	1.4. Data quality	6	6	6	6	3	→																																					
5	1.5. Payment of contributions	8	8	8	8	8	→																																					
6	1.6 Scam Detection & Prevention	4	4	4	4	4	→																																					
7	2.1. Risk of significant regulatory breach	5	5	5	5	5	→																																					
8	2.2. Regulatory changes	8	8	8	8	8	→																																					
9	2.3. Financial irregularity	6	6	6	6	6	→																																					
10	2.4 Loss of key personnel	8	8	8	8	4	→	<p>Summary of risk changes since last report to Pensions Committee</p> <p>Emerging Risks</p> <p>New risks added in Q4:</p> <ul style="list-style-type: none"> None, but risk 3.3 extended to include the impact of all armed conflicts on the Pension Fund. <p>Risks removed in Q4:</p> <ul style="list-style-type: none"> None <p>Risk Score Changes in Q4:</p> <ul style="list-style-type: none"> None. <p>▪ Biodiversity loss: refers to the decline or disappearance of biological diversity, understood as the variety of living things that inhabit the planet and it can have direct human health impacts, affecting livelihoods, income and local migration. Biodiversity loss is considered to be caused by five primary drivers: habitat loss, invasive species, overexploitation (hunting / fishing), pollution and climate change associated with global warming. Although the scale and extent is not yet clear and could be influenced by many factors including future regulatory changes, the Pension Fund recognises that biodiversity loss should be acknowledged as a key emerging risk.</p>																																				
11	2.5. Conflicts of Interest	4	4	4	4	4	→																																					
12	2.6 Operational interruption	8	4	4	4	4	→																																					
13	3.1 Investment performance	8	8	8	8	8	→																																					
14	3.2 Availability of investment opportunities	6	6	6	6	6	→																																					
15	3.3 Impact of Armed Conflicts	9	9	9	9	9	→																																					
16	3.4 Inflation	9	9	9	9	9	→																																					
17	3.5 Climate Change	12	12	12	12	12	→																																					

- 11.13.3. The Pensions Committee and Local Pension Board will be provided with updates on a quarterly basis in relation to any changes to risks and newly identified risks. Should any major risk emerge or significant control failure takes place between meetings, this will be escalated by Fund Officers to the Chair of the Committee and Director of Resources (S151 Officer). Where changes to a risk, a new risk or control failures arise as a result of a breach of the law or indicate a potential breach of the law, the Fund's policy and procedure on reporting breaches of the law must be followed.
- 11.13.4. Where a risk is identified that could be of significance to the Council it will be recorded in the Corporate Risk Register. Where appropriate the Fund will adhere to the Council's broader risk reporting framework and escalation process.
- 11.13.5. The risk register of the Cumbria Pension Fund identifies the highest risk to the Fund is the risk associated with information security arrangements. In recognition of this risk and the potential severity of outcomes in the event that such an incident materialises, a review of cyber security arrangements was undertaken to assess the readiness of the Fund for such an incident.
- 11.13.6. Following this review a Cyber Governance Strategy has been drafted to set out the Fund's approach to effectively manage cyber risks. Whilst this will be a formal policy of the Fund, it will not be published within the Fund Policy Document or on the Fund's website due its confidential content.

11.14. Key risks to the effective delivery of this Policy

- 11.14.1. The key risks to the delivery of this Policy are outlined below. The Pensions Committee will monitor these and other key risks and consider how to respond to them.
- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
 - Changes in Pensions Committee and/or Local Pension Board membership, the two Independent Advisors and/or senior officers mean key risks are not identified due to lack of knowledge
 - Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
 - Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk exposure without proper controls
 - Lack of engagement or awareness of external factors means key risks are not identified
 - Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

11.15. Costs

All costs related to this Policy are met directly by the Fund.