

Managing Risks

Feb-24

104	Good internal controls are an important characteristic of a well-run scheme and one of the main components of the scheme manager's role in securing the effective governance and administration of the scheme. Internal controls can help protect pension schemes from adverse risks, which could be detrimental to the scheme and members if they are not mitigated.		Discussed at each Board meeting and regularly reviewed as part of business as usual operations	Updated Text
105	Scheme managers must establish and operate internal controls. These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls. They should seek advice, as necessary.		Discussed at each Board meeting and included in risk register, which is regularly reviewed including an annual "deep dive"	Updated Text
106	Before implementing an internal controls framework, schemes should carry out a risk assessment. They should begin by: setting the objectives of the scheme determining the various functions and activities carried out in the running of the scheme, and identifying the main risks associated with those objectives, functions and activities.		Discussed at each Board meeting and considered on risk register.	
107	An effective risk assessment process will help schemes to identify a wide range of internal and external risks, which are critical to the scheme and members. When identifying risks, schemes should refer to relevant sources of information, such as records of internal disputes and legislative breaches, the register of interests, internal and external audit reports and service contracts.		Discussed at each Board meeting and regularly reviewed as part of business as usual operations	Updated Text
108	Once schemes have identified risks, they should record them in a risk register and review them regularly. Schemes should keep appropriate records to help scheme managers demonstrate steps they have taken to comply, if necessary, with legal requirements.		Discussed at each Board meeting and included in risk register	
109	Not all risks will have the same potential impact on scheme operations and members or the same likelihood of materialising. Schemes should consider both these areas when determining the order of priority for managing risks and focus on those areas where the impact and likelihood of a risk materialising is high.		Discussed at each Board meeting and included within risk register reviews	
110	Many pension schemes will already have adequate internal controls in place, some of which may apply to a variety of the functions of the administering authority. Schemes should review their existing arrangements and procedures to determine whether they can prevent and detect errors in scheme operations and help mitigate pension scheme-related risks. For example, schemes could obtain assurance about their existing controls through direct testing or by obtaining reports on controls. Any such review should be appropriate to the outcome of the risk evaluation.		Discussed at each Board meeting and regularly reviewed as part of business as usual operations	
111	Schemes should consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. For example, the scheme manager(s) for a funded scheme should establish and operate internal controls that regularly assess the effectiveness of investment-related decision making. Scheme managers for all pension schemes should establish and operate internal controls that regularly assess the effectiveness of data management and record-keeping.		Discussed at each Board meeting and considered on risk register.	
113	Risk assessment is a continual process and should take account of a changing environment and new and emerging risks, including significant changes in or affecting the scheme and employers who participate in the scheme.		Discussed at each Board meeting and during regular risk register reviews	
114	For example, where relevant, schemes should put in place systems and processes for making an objective assessment of the strength of an employer's covenant (which should include analysis of their financial position, prospects and ability to pay the necessary employer contributions).		In Place - Work with Fund actuary to assess as required.	

115	<p>An effective risk assessment process will provide a mechanism to detect weaknesses at an early stage. Schemes should periodically review the adequacy of internal controls in:</p> <p>mitigating risks</p> <p>supporting longer-term strategic aims, for example relating to investments</p> <p>identifying success (or otherwise) in achieving agreed objectives, and</p> <p>providing a framework against which compliance with the scheme regulations and legislation can be monitored.</p>		<p>Discussed at Board meeting accordingly. Risk Register regularly reviewed and investment strategy monitored and reviewed regularly.</p>
116	<p>Internal or external audits and/or quality assurance processes should ensure that adequate internal controls are in place and being operated effectively. Reviews should take place when substantial changes take place, such as changes to pension scheme personnel, implementation of new administration systems or processes, or where a control has been found to be inadequate.</p>		<p>Annual Wales Audit Office reviews. Internal Audit of Administration took place in early 2023 and results presented identified no major issues.</p>
119	<p>The legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme. Providers should be required to demonstrate that they will have adequate internal controls in their tenders for delivering services. The requirements should be incorporated in the terms of engagement and contract between the scheme and service provider. Outsourced services may include, for example, the maintenance of records and data, calculation of benefits and investment management services. Where services are outsourced, scheme managers should be satisfied that internal controls associated with those services are adequate and effective.</p>		<p>Annual Assurances from providers sought.</p>
120	<p>An increasing number of service providers are obtaining independent assurance reports to help demonstrate their ability to deliver quality administration services. Schemes should ask their service providers to demonstrate that they have adequate internal controls relating to the services they provide. It is vital that schemes ensure they receive sufficient assurance from service providers. For example, the information from providers should be sufficiently detailed and comprehensive and the service level agreements should cover all services that are outsourced. Schemes should also consider including provisions in contracts for outsourced services requiring compliance with appropriate standards. This should help to ensure effective administration.</p>		<p>Annual Assurances from providers sought.</p>
Maintaining Contributions			
147	<p>Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable.</p>		<p>Breaches Log and procedure in place. Ongoing risk requiring monitoring. Stricter monitoring in place and performance now reported to Board at each meeting.</p>
148	<p>Where employee contributions are deducted from a member's pay, the amount deducted must be paid to the managers of the scheme at the latest by the 19th day of the month following the deduction, or by the 22nd day if paid electronically (the 'prescribed period'), or earlier if required by scheme regulations. References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or Bank Holidays.</p>		<p>Breaches Log and procedure in place. Ongoing risk requiring monitoring. Stricter monitoring in place and performance now reported to Board at each meeting.</p>

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149	Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law. For more information about reporting breaches of the law, see this section of the code.		Breaches Log and procedure in place. Ongoing risk requiring monitoring. Stricter monitoring in place and performance now reported to Board at each meeting.
150	As part of the requirement to establish and operate adequate internal controls, scheme managers should ensure that there are effective procedures and processes in place to identify payment failures that are – and are not – of material significance to the regulator. A ‘payment failure’ is where contribution payments are not paid to the scheme by the due date(s), or within the prescribed period and a ‘materially significant payment failure’ refers to a payment failure which is likely to be of material significance to the regulator in the exercise of its functions.		Breaches Log and procedure in place. Ongoing risk requiring monitoring. Stricter monitoring in place and performance now reported to Board at each meeting.
151	Schemes should monitor pension contributions, resolve payment issues and report payment failures, as appropriate, so that the scheme is administered and managed in accordance with the scheme regulations and other legal requirements.		Breaches Log and procedure in place. Ongoing risk requiring monitoring. Stricter monitoring in place and performance now reported to Board at each meeting.
152	Adequate procedures and processes are likely to involve: developing a record to monitor the payment of contributions monitoring the payment of contributions managing overdue contributions, and reporting materially significant payment failures.		In place.
153	These procedures and processes should help scheme managers to meet their statutory duty to report materially significant payment failures to the regulator, as well as ensuring the effective management of scheme contributions and payment of the right pension.		Breaches Log and Policy in place
155	Public service pension schemes which meet these exemptions should nonetheless develop a record for monitoring the payment of contributions to the scheme (a contribution monitoring record, which must reflect any requirements in scheme regulations where relevant). Schemes should prepare the contributions monitoring record in consultation with employees.		Procedure in place and has been developed throughout 2023. More stringent reporting to Board & Committee.
156	A contributions monitoring record will enable schemes to check whether contributions have been paid on time and in full, and, if they have not, provide a trigger for escalation for schemes to investigate the payment failure and consideration of whether scheme managers need to report to the regulator and, where relevant, members.		Procedure in place, but looking to develop using software for reconciliation and monitoring to help. This is dependant on the software providers developments.

Updated Text

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157	<p>A contributions monitoring record should include the following information:</p> <ul style="list-style-type: none"> • contribution rates • the date(s) on or before which employer contributions are to be paid to the scheme • the date by when, or period within which, the employee contributions are to be paid to the scheme • the rate or amount of interest payable where the payment of contributions is late. 		Noted. Statement of fact/process.	
158	The date when employer contributions must be paid is the date on or before which they are due under the scheme in accordance with the scheme regulations (or other scheme documentation). Schemes should assess the timing of payments against the date specified.		Noted. Statement of fact/process.	
159	While there is a legal requirement for employee contributions to be paid to the scheme by the 19th day of the month following deduction, or by the 22nd day if paid electronically, this does not override any earlier time periods required by the scheme regulations. There are special rules for the first deduction of contributions on automatic enrolment under the Pensions Act 2008.		Noted. Statement of fact/process.	
160	A contributions monitoring record should help schemes to identify any employers who are not paying contributions on time and/or in full, support schemes to ensure that contributions are paid and employers to develop and implement new processes, as appropriate. The contributions monitoring record should provide schemes with information to maintain records of money received and will be useful for schemes to ensure that their member records are kept up-to-date.		Procedure in place and has been developed throughout 2023. More stringent reporting to Board & Committee.	Updated Text
161	Schemes should monitor contributions on an ongoing basis for all the membership categories within the scheme. Schemes should regularly check payments due against the contributions monitoring record.		Procedure in place, but looking to develop using software for reconciliation and monitoring to help. This is dependant on the software providers developments.	Updated Text
162	Schemes should apply a risk-based and proportionate approach to help identify employers and situations which present a higher risk of payment failures occurring and which are likely to be of material significance and require the scheme manager to intervene.		Procedure in place, but looking to develop using software for reconciliation and monitoring to help. This is dependant on the software providers developments.	Updated Text
163	Schemes should be aware of what is to be paid in accordance with the contributions monitoring record or other scheme documentation, which may be used by the pension scheme. Schemes should also have a process in place to identify where payments are late or have been underpaid, overpaid or not paid at all.		Procedure in place, but looking to develop using software for reconciliation and monitoring to help. This is dependant on the software providers developments.	Updated Text
165	Schemes should have adequate internal controls in place to monitor the sharing of payment information between the employer, pension scheme and member. Where the necessary payment information is not automatically available or provided by employers, schemes should request the additional information they need. Schemes may not need to obtain payment information as a matter of course, only where it is required for effective monitoring.		Procedure in place within the Finance Section but looking to develop by using software	

166	Scheme managers must record and retain information on transactions, including any employer and employee contributions received and payments of pensions and benefits, which will support them in their administration and monitoring responsibilities.		Procedure in place within the Finance Section
167	Where the administration of scheme contributions is outsourced to a service provider, schemes should ensure that there is a process in place to obtain regular information on the payment of contributions to the scheme and a clear procedure in place to enable them to identify and resolve payment failures which may occur.		Procedures and policy in place
168	<p>When schemes identify or are notified of a problem, they should assess whether a payment failure has occurred before taking steps to resolve and, if necessary, report it. During their assessment, schemes should take into account:</p> <ul style="list-style-type: none"> • legitimate agreed payments made directly by an employer for scheme purposes, ie where the scheme has agreed that a contributions payment can be made late due to exceptional circumstances • legitimate agreed payment arrangements made between an employee and employer, ie where the employer has agreed that a contribution payment can be made late due to exceptional circumstances • contributions paid directly to a pension provider, scheme administrator or investment manager • any AVCs included with an employer’s overall payment. 		Procedures and policy in place
169	<p>Where schemes identify a payment failure, they should follow a process to resolve issues quickly. This should normally involve the following steps:</p> <ol style="list-style-type: none"> a. Investigate any apparent employer failure to pay contributions in accordance with the contributions monitoring record or legal requirements. b. Contact the employer promptly to alert them to the payment failure and to seek to resolve the overdue payment. c. Discuss it further with the employer as soon as practicable to find out the cause and circumstances of the payment failure. d. Ask the employer to resolve the payment failure and take steps to avoid a recurrence in the future. 		Breaches Log and procedure in place.