Getting ready for the Code: Effective reporting

What does good reporting look like?

Welcome to the Muse series **Getting ready for the Code**, where we are sharing tips and tools to help you navigate the Code and Own Risk Assessment (ORA) requirements. Get in touch to find out more at **governanceservices@museadvisory.com**.

This fifth article is a practical look at how to get the most out of your risk and control reporting.

Why is effective reporting important?

Effective risk and control reporting provides you with the tools to demonstrate that you are actively managing your risks. It helps you understand what your risks are and their relative impact, that you have considered what you need to do to manage those risks (the controls) and you know they are being managed in line with your objectives (your assurance).

Risk reporting might serve to inform, guide, direct, provide comfort. Asking the right questions at the right level, will help structure reporting so that it meets your needs and is effective for you.

What does effective reporting look like for us?

- ✔ *We know what our risks are and how they might impact on what we're trying to achieve*
- ✔ *We know that the controls in place are managing our risks as they should be*
- ✔ *We make informed decisions now that help us longer-term*
- ✔ *We take action where it's necessary, to keep us on track and ensure a well-run scheme*
- ✔ *We look ahead to what's coming over the horizon and plan for it*

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Reporting can be strategic and directional, maintaining a dialogue on where you are with your strategy and what might knock you off course. It guides decision making, helping understand how activities you've got planned over the next few years are mapped out so as to take action at the right time, knowing the impact work in one area will have on another and your resources/ capacity. Reporting can also provide assurance as to whether the controls are operating as they should be.

Effective risk and control reporting is an important tool to help you achieve your objectives and maintain business as usual (BAU), keeping things moving in the right direction.

So, what does good reporting look like?

Good risk reporting should:

- **Help you look at the here and now** – Show you if there's anything you should be concerned about given your circumstances, work currently underway and external factors, with proposals to keep risk within agreed appetite
- **Support decision making and BAU oversight** – Show you how projects impact on longer-term ambitions, how decisions taken now support future activities, where to focus time, expenditure and resource
- **Be forward-looking** – Stimulate discussions to look ahead and plan, understanding what's coming over the horizon and providing an early warning system.

Good controls and assurance reporting should:

- **Give you confidence** – Demonstrate that your risks are being managed in line with your risk appetite
- **Provide assurance** – Attest that scheme operations are running smoothly and as you expect
- **Help you take action** – Give you the information required to make improvements to mitigate risks occurring or to address issues.

What is the new Single Code looking for?

The Single Code expects Trustees to be more focused on identifying, assessing and understanding the risks that affect their particular pension scheme. This top-down approach provides the framework for how risks are managed.

The Code also asks Trustees to understand the controls they have in place to manage their specific risks, with thought given on how, and the extent to which, those controls are working in practice. It also calls for more rigour in the assurance Trustees seek and the potential use of internal audit.

This bottom-up approach sets the control and assurance framework, which oversees day-to-day scheme operations.

Throughout, the Code makes clear that risk management and controls management should be integrated into Trustee decision-making processes.

So how do you bring together the top-down and bottom-up views of risks and controls, so that reporting makes sense when looking at the big picture for decision making?

How do you build a bridge between the top-down and bottom-up?

Top-down

With a top-down approach the focus is on the alignment of risks with objectives and strategy and clarity of risk appetite, which influences decisions and prioritisation of activities.

This would typically be the remit of the Trustee Board. A case study illustrating the importance of the top-down approach is provided at the end of this article.

Bottom-up

A bottom-up approach, on the other hand, considers the robustness of internal controls, how they are managing risk in line with risk appetite, and compliance. It looks for evidence, through attestation on the controls in place and reporting across scheme operations. See the alternative case study on the importance of this approach.

For larger schemes, Committees would typically follow this approach. Smaller schemes may have fewer Committees or none at all so have access to less resource. This more limited resource may mean that such schemes concentrate more on the top-down approach and take a more targeted view when looking at their control and assurance framework, concentrating on the controls in place to manage key risks over a longer period of time. A balance can be found depending on a scheme's circumstances.

Building the bridge

The bridge between the two could helpfully come from the 'risk management function', as introduced by the Code. The Code states that this function "facilitates reporting to the whole governing body or the relevant sub-committee" and that "responsibility for identifying and evaluating risks and/or internal controls and risk management may be delegated to the risk management function".

The risk management function (possibly a Committee of the Board) could be responsible for producing risk reporting that is strategic, structured to help decision making, (i.e. top-down), with appropriate high-level assurance on the controls in place (bottom-up). Such risk reporting could be provided in the form of an executive summary or a dashboard to help the Board focus on what is most important.

This function could add significant value to the Board's decision making by providing a bird's eye view on what the Board wants to achieve and what might prevent, hinder or expedite progress against its objectives.

The governance benefits →

The governance benefits

- You want to know you're making decisions that are right for you and your members and keep you on track to achieve your objectives.
- You want clarity that your controls are working well and proactive solutions where they aren't.
- You want issues being flagged quickly, with actions being taken as necessary.
- You want assurance that the scheme is operating as you expect.

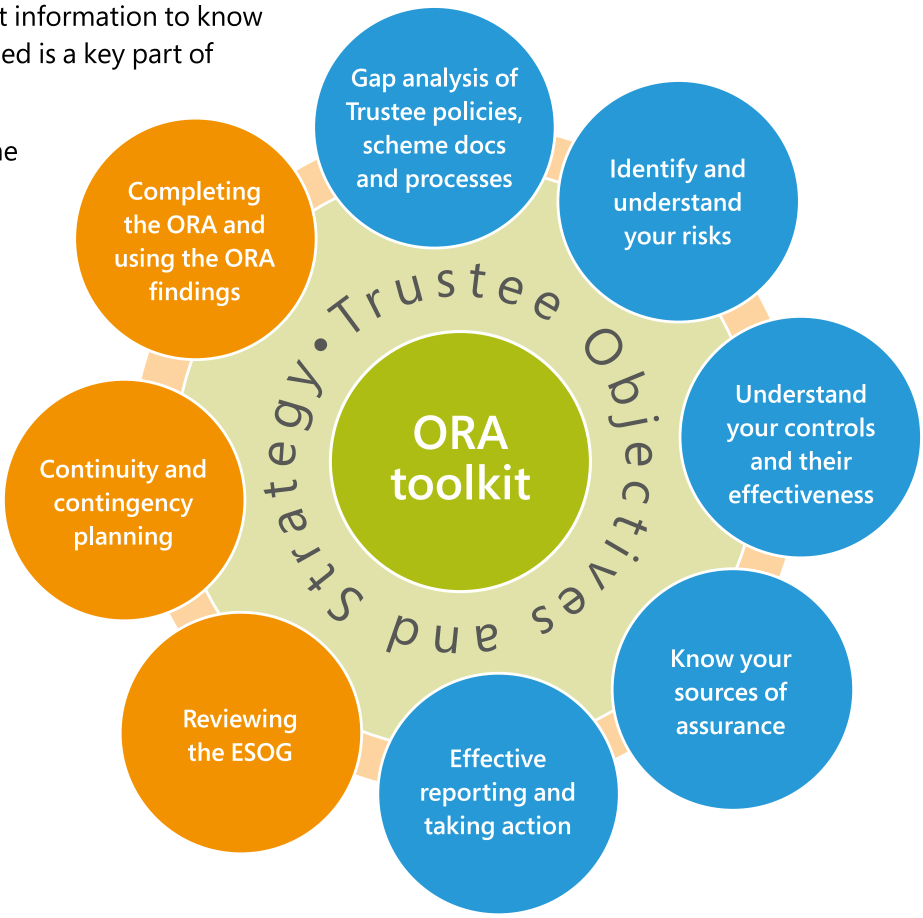
Obtaining the right level of reporting **enables you to be on the front foot in decision making and taking action**.

Muse Advisory's 'Getting Ready for the Code' series

Contact Rosanne, Jo, Julia or Barry for practical help and independent advice at governanceservices@museadvisory.com

Effective reporting and getting the right information to know that your specific risks are being managed is a key part of the ORA and Code requirements.

Our next article will look at reviewing the Effective System of Governance.



Case studies →

Case Studies

The importance of good risk reporting (the top-down approach)

Case study: Having data that is ready to go is key when pursuing a buy-in

The Administration Committee was carefully trying to manage a situation where the administrator was struggling with SLAs and capacity and there was generally low morale in the team.

At the same time, the Trustee, guided by the Funding and Investment Committee, sought to move quickly to a buy-in and started engaging insurers for pricing. It was an unwelcome surprise to find that the data contained rather large holes.

The insurers didn't want the data in the shape it was and provided significantly higher contingency pricing, however would retain their competitive pricing within a limited timeframe if the data issues were resolved.

With protracted trustee meetings to decide how to communicate with members and encourage them to help fill the data gaps, a stretched admin team and frustration amongst trustees and committees, the process became somewhat fraught.

The board did transact, but it meant admin resource being diverted away from BAU, other project work being paused and SLAs put under more pressure.

The importance of controls risk reporting (the bottom-up approach)

Case study: Administration reporting needs to answer the right questions

The Trustee Board historically received a report from the scheme administrators every quarter which indicated that the administrators were consistently meeting the SLAs in place. The SLAs reported on the timescales for provision of information to members, primarily related to benefit quotations and settlements which reassured the trustees that the benefits were being paid at the right time.

As part of some preparatory work for the GMP equalisation exercise, it was discovered that the pensions for a subset of the membership had not been calculated in accordance with the Trust Deed and Rules. The members affected were receiving a higher pension than they were entitled to and had therefore been overpaid for several years. Communicating with the affected members, recalculating the benefits, obtaining legal advice and discussing the decisions required was time-consuming and costly and diverted the Trustee's time from work relating to their strategic journey.

As a result of this discovery and to reduce the chance that this might happen again, the Trustee agreed to produce a benefit specification with the necessary legal sign-off. Some sampling of historical calculations was also undertaken to identify any further discrepancies. The scheme administrator also started reporting on their review processes to provide some assurance to the trustees that benefits were being calculated correctly.

Introducing these additional controls strengthened the existing control framework but it was acknowledged by the trustees that this issue may have been identified much earlier (or may not have happened at all) if these controls had already been in place.