

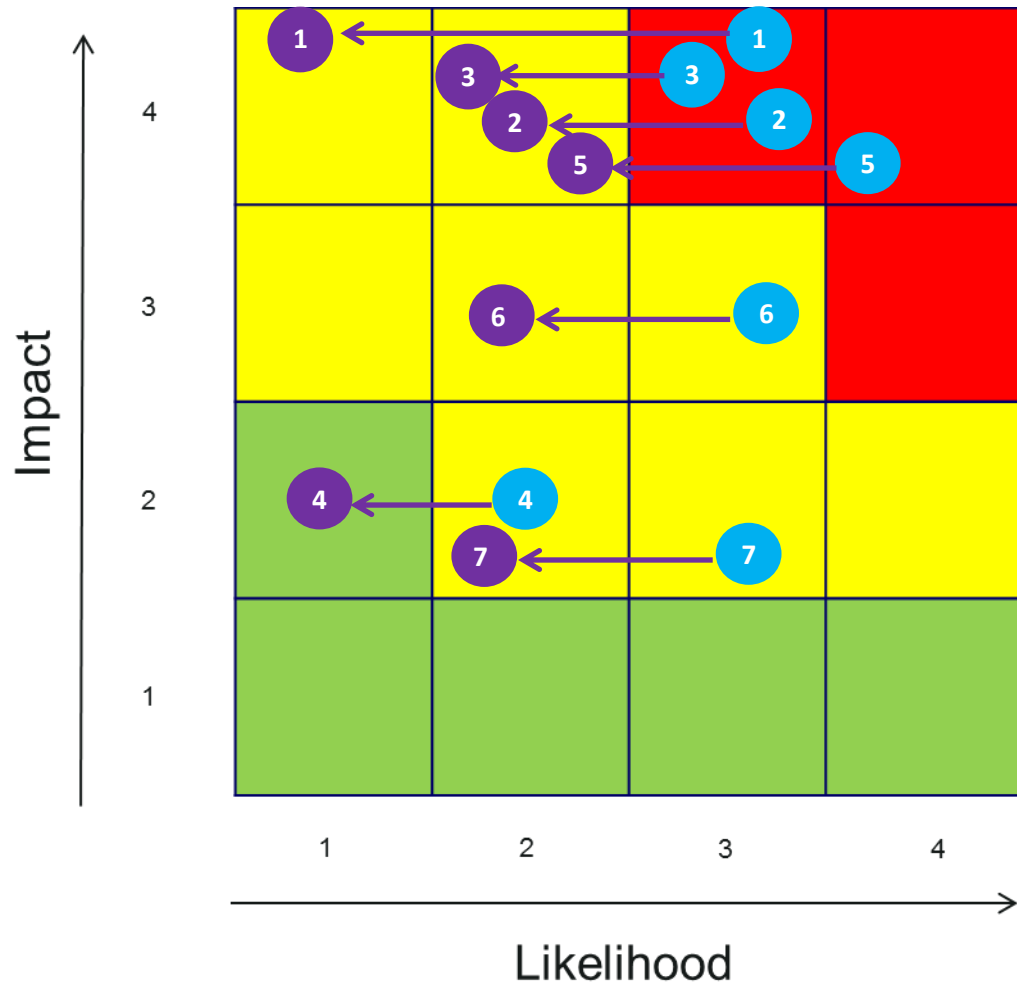
APPENDIX A

London Borough of Havering

Pension Risk Register

JUNE 2015

Inherent and Residual Risk Score Matrix



Ref	Risk Title
1	Inaccurate three yearly actuarial valuation
2	Incorrect / Inappropriate Investment Strategy
3	Failure of investments to perform in-line with growth expectations
4	Failure to comply with legislative requirements
5	Inability to manage/ govern the Pension Fund and associated services
6	Failure to effectively "sign up" new employers / members
7	Pension Fund Payment Fraud

● Inherent Risk Score
 ● Residual Risk Score

Definitions:

Inherent Risk Score: The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.

Residual Risk Score: This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
1	Inaccurate three yearly actuarial valuation	<p>Causes:</p> <ul style="list-style-type: none"> Inappropriate assumptions used by actuary in calculations for valuation Poor quality data provided from LB of Havering Personal data not maintained to a high standard (gaps/incorrect) Actuary's own assumptions are not robust or reflective <p>Effects:</p> <ul style="list-style-type: none"> Deficit position worsens Employers pay/ continue to pay incorrect contribution percentages Increase in employer contributions Potential for Council Tax increases More investment risk may be taken to bridge a gap that doesn't actually exist Potential for a more risk averse Investment Strategy when more risk is required. 	<p>Impact 4 Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> Robust, open tender process in place for appointment of actuary Valuation completed by a qualified professional actuary Some assumptions for valuation dictated by statute Actuarial assumptions are challenged by officers Valuation assumptions subject to External Audit review Local Government benchmarking/comparisons of assumptions Annual review of actuary performance undertaken by Pensions Committee <p>Actions to take forward: None identified at this point.</p>	<p>Impact 4 Likelihood 1</p>	Director of Finance (oneSource)
2	Incorrect / Inappropriate Investment Strategy	<p>Causes:</p> <ul style="list-style-type: none"> Lack or poor professional investment advice given 	<p>Impact 4 Likelihood</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> Robust, open tender process in place for appointment of Investment 	<p>Impact 4 Likelihood</p>	Director of Finance (oneSource)

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		<ul style="list-style-type: none"> ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate actuarial valuation <p>Effects:</p> <ul style="list-style-type: none"> ▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth opportunities are not maximised ▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk averse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases 	3	<p>Advisor</p> <ul style="list-style-type: none"> ▪ Investment Advisor performance is annually reviewed by the Pensions Committee ▪ Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy ▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee ▪ Liabilities analysed during inter-valuation period <p>Actions to take forward:</p> <ul style="list-style-type: none"> ▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice 	2	

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
3	Failure of investments to perform in-line with growth expectations	<p>Causes:</p> <ul style="list-style-type: none"> Poor Fund Manager selection Underperformance by fund manager Poor investment advice provided to LB of Havering or not taken Negative financial market impacts External factors / increased market volatility (i.e. 2008) Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth <p>Effects:</p> <ul style="list-style-type: none"> Deficit reduction targets are not met Potential for losses to be incurred Increased employer contributions 	<p>Impact 4 Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> Robust, Fund Manager selection process Diverse portfolio to reduce negative effects from market volatility Quarterly monitoring of fund performance and asset class split is presented by the Fund's Investment Advisor at Pension Committee. Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. Fund Managers attend Pension Committee and officer meetings to present quarterly performance reports <p>Actions to take forward:</p> <ul style="list-style-type: none"> Pensions Committee Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework 	<p>Impact 4 Likelihood 2</p>	Director of Finance (oneSource)

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Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
4	Failure to comply with legislative requirements	<p>Causes:</p> <ul style="list-style-type: none"> Lack of appropriate skills/knowledge to fulfil requirements Unaware of legislative changes Development of key person dependency Poor/inaccurate interpretation of the regulations Failure/inability to administer the pension scheme appropriately. <p>Effects:</p> <ul style="list-style-type: none"> Reputational damage Potential for financial penalties Potential for costly legal challenges Increase in employer contributions, delayed due to non-compliance. 	<p>Impact 2</p> <p>Likelihood 2</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> Financial requirements are subject to external and internal audit Experienced personnel in place Legislative changes are reported to the Pensions Committee where required Active participation in Legislative Consultations where appropriate External and in house training provided where required Member of the CIPFA Pensions Network Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness Statutory policy documents reviewed annually to ensure compliance with legislation Access to specialist pension media sources <p>Actions to take forward:</p> <p>None identified at this point.</p>	<p>Impact 2</p> <p>Likelihood 1</p>	<p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer & Transactional Services (oneSource)</p>

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
5	Inability to manage/govern the Pension Fund and associated services	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ Lack of knowledge sharing protocols ▪ No knowledge base to store experiences/information ▪ Lack of resource (Staffing/financial) ▪ ICT failure ▪ Poor pension fund administration ▪ Poor monitoring of employer financial status ▪ Inappropriate investment accounting <p>Effects:</p> <ul style="list-style-type: none"> ▪ Negative impacts upon service provision ▪ Time delays ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to "buying in" external expertise ▪ Employer defaults 	Impact 4 Likelihood 4	<p>Mitigations in place:</p> <ul style="list-style-type: none"> • Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Procedure manual in place for Pension Administration • Attendance at local forum meetings • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web • Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Attendance at accounting seminars/training • Guidance from external agencies (some will be at a cost) • Pension Fund uses the service of an external custodian to verify asset values and performance • Pension Fund accounts subject to external audit. • Continuous pension training 	Impact 4 Likelihood 2	<p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer & Transactional Services (oneSource)</p>

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Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		<ul style="list-style-type: none"> ▪ Qualified opinion on the accounts by external auditor 		<ul style="list-style-type: none"> • ICT Disaster Recovery in place <p>Actions to take forward:</p> <ul style="list-style-type: none"> • Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience • Introduce employer covenants checks • Strengthen process for Bond Reviews • Development of workflow/process management • Development of Training Matrix • Establishment of a statutory Local Pension Board to assist the administering authority in effective and efficient governance of the Havering pension Fund 		
6	<p>Failure to effectively “sign -up” new employers / members</p>	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Delays in internal processing of documentation ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities 	<p>Impact 3 Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> • Escalation to Heads of Service • Script in place to deliver to new Academy employers, with feedback process in place (minuted) • Database maintained on all contact 	<p>Impact 3 Likelihood 2</p>	<p>Director of Exchequer & Transactional Services (oneSource)</p>

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Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		<ul style="list-style-type: none"> ▪ Lack of signed agreements from Employers <p>Effects:</p> <ul style="list-style-type: none"> ▪ Delays in collection of contribution from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment can become out of date ▪ Potential breach of regulations ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employers liabilities may fall back onto other employers and ultimately local taxpayers. 		<p>details for LGPS communications.</p> <ul style="list-style-type: none"> • Monthly schedules of data submitted to Pensions Administration Team • Electronic file of required documents forwarded to new employers <p>Actions to take forward:</p> <ul style="list-style-type: none"> • Review of internal processes (particularly legal input) • Completion of TUPE Process Manual • Completion of Admission Policy manual • Template admission agreement awaiting legal clearance 		
7	Pension Fund Payment Fraud	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation <p>Effects:</p> <ul style="list-style-type: none"> ▪ Financial loss ▪ Reputational damage of Pension 	<p>Impact 2</p> <p>Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> • Participate in the National Fraud Initiative (bi-annually) • Process is in place to investigate return of payment by banks. • All pension calculations are peer checked and signed off by senior officer • Segregation of duties within the 	<p>Impact 2</p> <p>Likelihood 2</p>	<p>Director of Exchequer & Transactional Services (oneSource)</p>

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Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		Administration team and Council <ul style="list-style-type: none"> ▪ Litigation / investigation ▪ Internal disciplinary 		Pensions Administration Team <ul style="list-style-type: none"> • Segregation of duties between Payroll and Pensions Administration Team • 100% address check undertaken for deferred pensions Actions to take forward: <ul style="list-style-type: none"> • Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for overseas payments) 		