

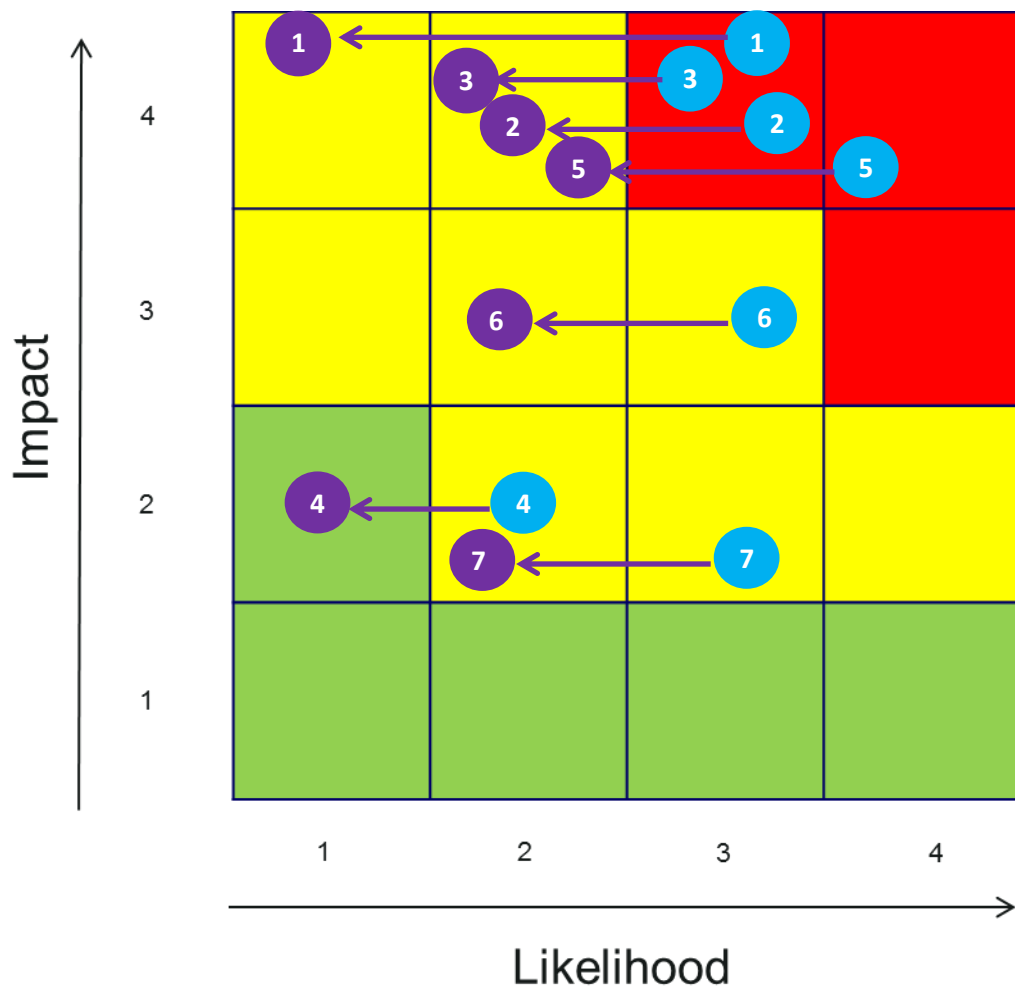
APPENDIX A

# **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><b>Causes:</b></p> <ul style="list-style-type: none"> <li>Inappropriate assumptions used by actuary in calculations for valuation</li> <li>Poor quality data provided from LB of Havering</li> <li>Personal data not maintained to a high standard (gaps/incorrect)</li> <li>Actuary's own assumptions are not robust or reflective</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>Deficit position worsens</li> <li>Employers pay/ continue to pay incorrect contribution percentages</li> <li>Increase in employer contributions</li> <li>Potential for Council Tax increases</li> <li>More investment risk may be taken to bridge a gap that doesn't actually exist</li> <li>Potential for a more risk averse Investment Strategy when more risk is required.</li> </ul>	<p><b>Impact</b> 4 <b>Likelihood</b> 3</p>	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>Robust, open tender process in place for appointment of actuary</li> <li>Valuation completed by a qualified professional actuary</li> <li>Some assumptions for valuation dictated by statute</li> <li>Actuarial assumptions are challenged by officers</li> <li>Valuation assumptions subject to External Audit review</li> <li>Local Government benchmarking/comparisons of assumptions</li> <li>Annual review of actuary performance undertaken by Pensions Committee</li> </ul> <p><b>Actions to take forward:</b> None identified at this point.</p>	<p><b>Impact</b> 4 <b>Likelihood</b> 1</p>	Director of Finance (oneSource)
2	Incorrect / Inappropriate Investment Strategy	<p><b>Causes:</b></p> <ul style="list-style-type: none"> <li>Lack or poor professional investment advice given</li> </ul>	<p><b>Impact</b> 4 <b>Likelihood</b></p>	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>Robust, open tender process in place for appointment of Investment</li> </ul>	<p><b>Impact</b> 4 <b>Likelihood</b></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"> <li>▪ Investment advice is not taken</li> <li>▪ Lack of understanding and awareness (Pension Committee)</li> <li>▪ Lack of clear risk appetite</li> <li>▪ Based upon inaccurate actuarial valuation</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>▪ Pension deficit not reduced</li> <li>▪ Potential for financial loss</li> <li>▪ Growth opportunities are not maximised</li> <li>▪ Could generate inefficiencies and unintended risks if not fully understood.</li> <li>▪ More investment risk may be taken to bridge a gap that doesn't actually exist</li> <li>▪ Potential for a more risk averse Investment Strategy when more risk is required.</li> <li>▪ Potential for Council Tax increases</li> </ul>	3	<p>Advisor</p> <ul style="list-style-type: none"> <li>▪ Investment Advisor performance is annually reviewed by the Pensions Committee</li> <li>▪ Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy</li> <li>▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee</li> <li>▪ Liabilities analysed during inter-valuation period</li> </ul> <p><b>Actions to take forward:</b></p> <ul style="list-style-type: none"> <li>▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework</li> <li>▪ Consider using a further independent advisor for challenge to investment advice</li> </ul>	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><b>Causes:</b></p> <ul style="list-style-type: none"> <li>Poor Fund Manager selection</li> <li>Underperformance by fund manager</li> <li>Poor investment advice provided to LB of Havering or not taken</li> <li>Negative financial market impacts</li> <li>External factors / increased market volatility (i.e. 2008)</li> <li>Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>Deficit reduction targets are not met</li> <li>Potential for losses to be incurred</li> <li>Increased employer contributions</li> </ul>	<b>Impact</b> 4 <b>Likelihood</b> 3	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>Robust, Fund Manager selection process</li> <li>Diverse portfolio to reduce negative effects from market volatility</li> <li>Quarterly monitoring of fund performance and asset class split is presented by the Fund's Investment Advisor at Pension Committee.</li> <li>Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers.</li> <li>Fund Managers attend Pension Committee and officer meetings to present quarterly performance reports</li> </ul> <p><b>Actions to take forward:</b></p> <ul style="list-style-type: none"> <li>Pensions Committee Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework</li> </ul>	<b>Impact</b> 4 <b>Likelihood</b> 2	Director of Finance (oneSource)

Pension Fund Risk Register						
Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
4	Failure to comply with legislative requirements	<p><b>Causes:</b></p> <ul style="list-style-type: none"> <li>Lack of appropriate skills/knowledge to fulfil requirements</li> <li>Unaware of legislative changes</li> <li>Development of key person dependency</li> <li>Poor/inaccurate interpretation of the regulations</li> <li>Failure/inability to administer the pension scheme appropriately.</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>Reputational damage</li> <li>Potential for financial penalties</li> <li>Potential for costly legal challenges</li> <li>Increase in employer contributions, delayed due to non-compliance.</li> </ul>	<p><b>Impact</b> 2</p> <p><b>Likelihood</b> 2</p>	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>Financial requirements are subject to external and internal audit</li> <li>Experienced personnel in place</li> <li>Legislative changes are reported to the Pensions Committee where required</li> <li>Active participation in Legislative Consultations where appropriate</li> <li>External and in house training provided where required</li> <li>Member of the CIPFA Pensions Network</li> <li>Participate in the CIPFA Pensions Network/ Peer forums to share knowledge &amp; awareness</li> <li>Statutory policy documents reviewed annually to ensure compliance with legislation</li> <li>Access to specialist pension media sources</li> </ul> <p><b>Actions to take forward:</b> None identified at this point.</p>	<p><b>Impact</b> 2</p> <p><b>Likelihood</b> 1</p>	<p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer &amp; 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><b>Causes:</b></p> <ul style="list-style-type: none"> <li>▪ Ineffective / lack of succession planning</li> <li>▪ Loss of corporate knowledge/expertise</li> <li>▪ Long term sickness absence</li> <li>▪ Increase in staff turnover</li> <li>▪ Lack of knowledge sharing protocols</li> <li>▪ No knowledge base to store experiences/information</li> <li>▪ Lack of resource (Staffing/financial)</li> <li>▪ ICT failure</li> <li>▪ Poor pension fund administration</li> <li>▪ Poor monitoring of employer financial status</li> <li>▪ Inappropriate investment accounting</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>▪ Negative impacts upon service provision</li> <li>▪ Time delays</li> <li>▪ Potential for breach of legislation</li> <li>▪ Financial penalties/ other sanctions</li> <li>▪ Reputational Damage</li> <li>▪ Increased costs due to "buying in" external expertise</li> <li>▪ Employer defaults</li> </ul>	<b>Impact</b> 4 <b>Likelihood</b> 4	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>• Bond or guarantee reviews in place and reviewed every three years as part of valuation process</li> <li>• Procedure manual in place for Pension Administration</li> <li>• Attendance at local forum meetings</li> <li>• Attendance at Annual Pension Managers conference</li> <li>• Members of Local Authority Pensions Web</li> <li>• Participates in the CIPFA Pensions Network/ Peer forums to share knowledge &amp; awareness</li> <li>• Attendance at accounting seminars/training</li> <li>• Guidance from external agencies (some will be at a cost)</li> <li>• Pension Fund uses the service of an external custodian to verify asset values and performance</li> <li>• Pension Fund accounts subject to external audit.</li> <li>• Continuous pension training</li> </ul>	<b>Impact</b> 4 <b>Likelihood</b> 2	<p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer &amp; Transactional Services (oneSource)</p>

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



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

# Pension Fund Risk Register

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"> <li>▪ Litigation / investigation</li> <li>▪ Internal disciplinary</li> </ul>		Pensions Administration Team <ul style="list-style-type: none"> <li>• Segregation of duties between Payroll and Pensions Administration Team</li> <li>• 100% address check undertaken for deferred pensions</li> </ul> <b>Actions to take forward:</b> <ul style="list-style-type: none"> <li>• Consider implementation of a monthly mortality check</li> <li>• Investigating usage of external agencies (i.e. Western Union) (for overseas payments)</li> </ul>		