



Pension Fund Risk Register

Incorporating Risks relating to Havering/Newham and Bexley

D R A F T

July 2018

Pension Fund Risk Register updated from 2015 - as at July 2018

Generic Pension Fund Risk Register

The pension fund uses a 4 x 6 matrix to plot risk likelihood and impact and has set its risk appetite. The green shaded area on the matrix shows the risks where there is good control and the Council is comfortable with the risk. Risks in the amber and red zones are those over which closer control is needed.

Likelihood	A				
	B				
	C				
	D				
	E				
	F				
		4	3	2	1
	Impact				

Risk Likelihood

F = Very Unlikely

E = Unlikely

D = Possible

C = Likely

B = Very likely

A = Certainty

Risk Impact

4 = Negligible

3 = Moderate

2 = Serious

1 = Major

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Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date	Risk Owner
1	<p>Risk of Inaccurate three yearly actuarial valuation</p> <p>Cause:</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) <p>Actuary's own assumptions are not robust or reflective</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 	<ul style="list-style-type: none"> ▪ Robust, open procurement process in place for appointment of actuary ▪ Valuation completed by a qualified professional actuary – next valuation being completed in 2019. ▪ Some assumptions for valuation dictated by statute ▪ Actuarial assumptions are open to challenge by officers ▪ Valuation assumptions subject to External Audit review ▪ Local Government benchmarking/compariso 	D/3	None identified at this point	<ul style="list-style-type: none"> ▪ Pension Fund reconciliations are carried out monthly whereby oracle transactions are compared to source documentation to ensure completeness of data. ▪ Quarterly reconciliations occur relating to retirements whereby the altair report is compared to 	S151 Officer/Director of Exchequer and Transactional Services

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		adverse Investment Strategy when more risk is required.	<ul style="list-style-type: none"> ns of assumptions Annual review of actuary performance undertaken by Pensions Committee Internal controls in place to ensure accuracy and completeness of data. Deficit monitoring of contribution 			<ul style="list-style-type: none"> oracle transactions to ensure completeness of data. New 5 year actuarial contract procured to start from 16th July 2018. Internal audit focusing on internal controls to take place in September 18. 	
2	<p>Risk of Incorrect / inappropriate Investment Strategy</p> <p>Cause:</p>	<ul style="list-style-type: none"> Pension deficit not reduced Potential for financial loss 	<ul style="list-style-type: none"> Robust, open procurement process in place for appointment of Investment Advisor 	D/2	<ul style="list-style-type: none"> Pensions Committee Training / Awareness - working towards full compliance with 	<ul style="list-style-type: none"> Induction carried out for new Pension Fund Committee 	S151 Officer/Director of Exchequer and Transaction

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	<ul style="list-style-type: none"> ▪ Lack or poor professional investment advice given ▪ Poor governance ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite Based upon inaccurate actuarial valuation 	<ul style="list-style-type: none"> ▪ 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 	<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 ▪ Knowledge and skills 		<p>CIPFA Knowledge and Skills framework</p> <ul style="list-style-type: none"> ▪ Consider using a further independent advisor for challenge to investment advice 	<p>members July 18.</p> <ul style="list-style-type: none"> ▪ Knowledge and Skills Training is on-going for Pension Committee and Local Pension Board members. ▪ 3 new fund managers on-boarded in March 18. 	<p>al Services</p>

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		adverse Investment Strategy when more risk is required. <ul style="list-style-type: none"> ▪ Potential for Council Tax increases ▪ Loss of investment opportunities and adverse performance 	training of LPB and Committee Members				
3	Risk of failure of investments to perform in-line with growth expectations Cause	<ul style="list-style-type: none"> ▪ Deficit reduction targets are not met ▪ Potential for losses to be 	<ul style="list-style-type: none"> ▪ Preparation of socially responsible Investment Policy ▪ Robust, Fund Manager selection process ▪ Diverse portfolio to 	D/3	<ul style="list-style-type: none"> ▪ Pensions Committee Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework 	<ul style="list-style-type: none"> ▪ Induction carried out for new Pension Fund Committee 	S151 Officer

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	<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 	<p>incurred</p> <ul style="list-style-type: none"> ▪ Increased employer contributions ▪ Reputational risk from poor investments ▪ The fund's assets are not sufficient to meet its long term liabilities ▪ Economy downturn could result in general fall in investment returns 	<p>reduce negative effects from market volatility</p> <ul style="list-style-type: none"> ▪ 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. <p>Fund Managers (including LCIV) attend Pension Committee and officer meetings to present quarterly performance reports</p>			<p>members July 18.</p> <ul style="list-style-type: none"> ▪ Knowledge and Skills Training is on-going. ▪ On boarded 3 new fund managers March 18 in order to diversify investments and increase growth expectations. 	

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	effectiveness of the strategy and may impact growth Economy downturn						
4	<p>Risk of failure to comply with legislative requirements</p> <p>Cause:</p> <ul style="list-style-type: none"> ▪ Lack of appropriate skills/knowledge of TPR, Pensions Regulator, Government and CIPFA Guidance, Financial Regulations and 	<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. Adverse external	<ul style="list-style-type: none"> ▪ Financial requirements are subject to external and internal audit ▪ Experienced personnel in place ▪ Continual personal development for all Committee/LPB members and staff ▪ Legislative changes are reported to the Pensions Committee where required ▪ Local Pension Board in place 	E/3		<ul style="list-style-type: none"> ▪ Favourable External audit reports since 2015 ▪ Internal Audit to take place September 18 focusing on Internal Controls. ▪ Induction carried out for new Pension Fund Committee members July 	S151 Officer/Director of Exchequer and Transactional Services

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	accounting standards ▪ Unaware of legislative changes ▪ key person dependency ▪ Poor/inaccurate interpretation of the regulations Failure/inability to administer the pension scheme appropriately	audit report	<ul style="list-style-type: none"> ▪ 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. 			18. ▪ On-going internal and external training offered to all Pensions Committee and Local Pension Board members	

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5	<p>Risk of inability to manage/govern the Pension Fund and associated services:</p> <p>Cause:</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 	<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 	<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 	D/3	<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 	<ul style="list-style-type: none"> • Succession planning in progress • LPP are newly working with Havering to provide seamless administration service • Local Pension Board in place and continuing with training and development in order to assist the 	S151 Officer/Director of Exchequer and Transactional Services

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	<p>sharing protocols</p> <ul style="list-style-type: none"> ▪ No knowledge base to store experiences/information ▪ Lack of resource (Staffing/financial) ▪ ICT failure/Disaster Recovery ▪ Poor pension fund administration ▪ Poor administration by the employers, payroll providers in the fund ▪ Poor monitoring 	<p>defaults</p> <ul style="list-style-type: none"> ▪ Qualified opinion on the accounts by external auditor ▪ Inaccurate data provided by the pension fund employers and payroll providers give rise to inaccurate data and financial reputational consequences such as actuary 	<p>knowledge & awareness</p> <ul style="list-style-type: none"> • 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. • Review external auditor report of LPP processes • Formal agreement in place with administrator, including SLA's • Authority levels clear • Complaints addressed 		<p>Training Matrix</p> <ul style="list-style-type: none"> • Establishment of a statutory Local Pension Board to assist the administering authority in effective and efficient governance of the Havering Pension Fund 	<p>administering authority in effective and efficient governance of the Havering Pension Fund.</p> <ul style="list-style-type: none"> • Pension Fund reconciliations (Pension costs and Contributions received) are carried out monthly. • All entries in altair are reconciled to oracle quarterly 	

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	<p>of employer financial status</p> <ul style="list-style-type: none"> ▪ Poor communications with stakeholders ▪ Inappropriate investment accounting – including reliance on third party providers. ▪ Excessive charges by suppliers ▪ Declining active membership leading to negative cash flow from dealings with members, 	<p>to set contribution rates with a high margin of error.</p> <ul style="list-style-type: none"> ▪ Higher employer contributions due to poor investment performance ▪ Employer failure to pay scheme contributions on time ▪ Poor Communication with 	<p>through Council's complaints system</p> <ul style="list-style-type: none"> • Continuous pension training for LPB, Pensions Committee members and staff • ICT/ Disaster Recovery in place • Monitoring Officer in place to review the administration work of LPP • Monthly reconciliations to monitor cash flow carried out. • Ee's and Er's contributions reconciled monthly –late payments chased • Fee Invoices checked 			<p>to ensure completeness.</p> <ul style="list-style-type: none"> • The Monitoring officer is in place and reviews the administration work of LPP. • All fee invoices are checked prior to payment 	

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	<p>requiring assets to be realised to meet liabilities.</p> <p>Employer goes into default, deficit on termination, change of status, financial risk.</p>	<p>stakeholders giving rise to disaffection and actions against the Council</p> <p>Insufficient assets to meet short term liabilities</p>	<p>prior to payment</p> <ul style="list-style-type: none"> • Monitor audited accounts of third party providers to ensure consistent asset valuation. • Monitor investment managers performance – Fund Managers present at Pension Fund Committee meetings • Pension Fund Annual Report on intranet • AGM all employers and key stakeholders invited • Union Representative at the Committee 				

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6	<p>Risk of failure to on board or exit employers/members effectively</p> <p>Cause:</p> <ul style="list-style-type: none"> ▪ Delays in internal processing of documentation ▪ Member data incomplete ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities <p>Lack of signed agreements from</p>	<ul style="list-style-type: none"> ▪ Delays in collection of contributions from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment can become out of date ▪ Potential breach of regulations 	<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 details for LGPS communications. ▪ Monthly schedules of data submitted to Pensions Administration Team ▪ Tracing agencies used to locate pension fund members ▪ Electronic file of required documents forwarded to new employers ▪ Actuarial assessment 	D/2	<ul style="list-style-type: none"> ▪ Review of internal processes (particularly legal input) • Completion of TUPE Process Manual • Completion of Admission Policy manual <p>Template admission agreement awaiting legal clearance</p>	<ul style="list-style-type: none"> ▪ TUPE manual completed <p style="color: red;">check further</p>	S151 Officer/Director of Exchequer and Transactional Services

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	Employers	<ul style="list-style-type: none"> ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employer's liabilities may fall back onto other employers and ultimately local taxpayers. 	<p>completed for all new admission requests to assess the level of risk.</p> <ul style="list-style-type: none"> ▪ Bonds and suitable guarantees put into place to protect the Fund in case of default. <p>Funding level of each employer is assessed as part of the triennial valuation and contribution rates set accordingly.</p>				
7	<p>Risk of Pension Fund Payment Fraud</p> <p>Cause:</p> <ul style="list-style-type: none"> ▪ Pension overpayments arising as a result of non- 	<ul style="list-style-type: none"> ▪ Financial loss ▪ Reputational damage of Pension Administration team and Council 	<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 	E/1	<ul style="list-style-type: none"> • Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for 	<ul style="list-style-type: none"> ▪ Internal audit booked to report on the effectiveness of the internal controls - to take place 	Director of Exchequer and Transactional Services

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	notification in change of circumstances <ul style="list-style-type: none"> ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation ▪ Conflict of interest 	<ul style="list-style-type: none"> ▪ Litigation / investigation ▪ Internal disciplinary Reputational damage	<ul style="list-style-type: none"> are peer checked and signed off by senior officer ▪ Segregation of duties within the Pensions Administration Team ▪ Segregation of duties between Payroll and Pensions Administration Team ▪ 100% address check undertaken for deferred pensions ▪ Mortality screening carried out ▪ Pension Fund bank account checked monthly ▪ Internal audit checks carried out ▪ Register of interests completed at all board meetings 		overseas payments) <ul style="list-style-type: none"> • Implement internal audit process to report on the effectiveness of the internal controls 	September 2018. <ul style="list-style-type: none"> ▪ Check on mortality check 	

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