

APPENDIX



PENSION FUND RISK REGISTER – DECEMBER 2012

Objectives

1. The objectives of the Risk Register are to:
 - identify key risks to the achievement of the Fund's objectives
 - consider the risks identified
 - assess the significance of the risks.

Risk Assessment

2. Identified risks are assessed separately and for each the following is determined:
 - the likelihood of the risk materialising
 - the severity of the impact/potential consequences if it does occur.
3. Each factor is evaluated on a sliding scale of 1 to 5 with 5 being the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables below have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value.

LIKELIHOOD:		
1	Rare	0 to 5% chance
2	Unlikely	6 to 20% chance
3	Possible	21 to 50% chance
4	Likely	51 to 80% chance
5	Almost certain	81%+ chance

IMPACT:		
1	Insignificant	0 to 5% effect
2	Minor	6 to 20% effect
3	Moderate	21 to 50% effect
4	Significant	51 to 80% effect
5	Catastrophic	81%+ effect

Having scored each risk for likelihood and impact, the risk ratings can be plotted onto the following matrix to enable risks to be categorised into Low, Medium, High and Very High Risk. The risk rating scores and categories are then used to prioritise the risks shown in the register in order to determine where additional action is required.

Risk Rating Matrix

Relative Impact	Catastrophic (5)	M	H	VH	VH	VH
	Significant (4)	M	H	VH	VH	VH
	Moderate (3)	M	M	H	H	H
	Minor (2)	L	L	M	M	M
	Insignificant (1)	L	L	L	L	L
		(1) Rare	(2) Unlikely	(3) Possible	(4) Likely	(5) Almost Certain
		Relative Likelihood				

NOTTINGHAMSHIRE PENSION FUND RISK REGISTER

RISK	RATING	IMPACT
Risk V1. Significant variations from assumptions used in the actuarial valuation	16	VERY HIGH
Risk G5. Fund assets are not sufficient to meet its obligations and liabilities.	12	VERY HIGH
Risk G3. An effective performance management framework is not in place.	9	HIGH
Risk G4. Inappropriate investment strategy is adopted.	8	HIGH
Risk G1. Pension Fund governance arrangements are not effective	8	HIGH
Risk A2a. Fund manager mandates	8	HIGH
Risk A2b. Custody arrangements	8	HIGH
Risk A1. Standing data and permanent records are not accurate or do not reflect changes of circumstances.	8	MEDIUM
Risk G2. Pension Fund objectives are not defined and agreed.	6	MEDIUM
Risk A2c. Accounting arrangements	6	MEDIUM
Risk A2d. Financial Administration	6	MEDIUM
Risk A2e. Pensions Administration	6	MEDIUM
Risk A3. Inadequate resources are available to manage the pension fund.	6	MEDIUM
Risk R1. Failure to adhere to relevant statutory regulations including updates from LGPS.	6	MEDIUM
Risk A2f. Stewardship	4	LOW
Risk A4. Failure to communicate adequately with all relevant stakeholders.	4	LOW

Pension Fund Governance						
Risk G1. Pension Fund governance arrangements are not effective (Myners' Principle 1 / 6)						
Likelihood:	2	Impact:	4	Risk Rating:	8	HIGH
Current Controls	<ul style="list-style-type: none"> • The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Nottinghamshire Pension Fund Committee (NPF Committee), supported by two Sub-Committees. 					
	<ul style="list-style-type: none"> • The terms of reference of each Sub-Committee are agreed. 					
	<ul style="list-style-type: none"> • The Fund publishes a Governance Compliance Statement which details the governance arrangements of the Fund and assesses compliance with best practice. This is kept regularly under review. 					
	<ul style="list-style-type: none"> • A training policy is in place which requires Members to receive continuing training and all new Members to attend the Local Government Employers training course. 					
	<ul style="list-style-type: none"> • Officers of the Council attend meetings of the Pensions Committee and Sub-Committees. 					
	<ul style="list-style-type: none"> • The Fund has a formal contract for an independent adviser to give advice on investment matters. They are required to attend each meeting of the Pension fund investment sub-committees. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 					
Responsibility:	Group Manager (Financial Strategy & Compliance)			Timescale:	On-going	

Pension Fund Governance						
Risk G2. Pension Fund objectives are not defined and agreed. (Myners' Principle 2)						
Likelihood:	2	Impact:	3	Risk Rating:	6	MEDIUM
Current Controls	<ul style="list-style-type: none"> • Objectives are defined in the Funding Strategy Statement and approved by the NPF Committee. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 					
Responsibility:	NPF Committee; Group Manager (Financial Strategy & Compliance)			Timescale:	On-going	

Pension Fund Governance						
Risk G3. An effective performance management framework is not in place. (Myner's Principle 4)						
Likelihood:	3	Impact:	3	Risk Rating:	9	HIGH
Current Controls	<ul style="list-style-type: none"> • A performance management framework involving quarterly performance reports to the Pensions Investment Sub Committee is in place. 					
	<ul style="list-style-type: none"> • Poor performance is highlighted and addressed directly by the Pensions Investment Sub Committee and ultimately the NPF Committee. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Devise performance framework to monitor effectiveness of asset allocation decisions. 					
Responsibility:	Pensions Investment Sub-Committee; Group Manager (Financial Strategy & Compliance)			Timescale:	September 2013	

Pension Fund Governance						
Risk G4. Inappropriate investment strategy is adopted. (Myners' Principle 2)						
Likelihood:	2	Impact:	4	Risk Rating:	12	HIGH
Current Controls	<ul style="list-style-type: none"> • The Investment Strategy is in accordance with LGPS investment regulations. 					
	<ul style="list-style-type: none"> • The Investment Strategy is documented, reviewed and approved by the Pensions Committee. 					
	<ul style="list-style-type: none"> • The Strategy takes into account the Fund's liabilities. 					
	<ul style="list-style-type: none"> • A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party. 					
	<ul style="list-style-type: none"> • An external advisor provides specialist guidance to the Pensions Investment Sub Committee on the investment strategy. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Consider the need for an explicit assessment of the strategic risk inherent in the Fund's Investment Strategy. This could form part of an Investment Strategy Review following the triennial valuation. 					
Responsibility:	Group Manager (Financial Strategy & Compliance)			Timescale:	March 2014	

Pension Fund Governance				
Risk G5. Fund assets are not sufficient to meet its obligations and liabilities. (Myners' Principle 3)				
Likelihood:	3	Impact:	4	Risk Rating: 12 VERY HIGH
Current Controls	<ul style="list-style-type: none"> • Fund cash flow is monitored daily and reported to Investment Sub-Committee annually 			
	<ul style="list-style-type: none"> • Fund assets are kept under review as part of the Fund's performance management framework. • 			
	<ul style="list-style-type: none"> • Regular assessment of Fund assets and liabilities is carried out through Actuarial valuations. 			
	<ul style="list-style-type: none"> • The Fund's Investment and Funding Strategies are regularly reviewed . 			
	<ul style="list-style-type: none"> • An external advisor provides specialist guidance to the Pensions Investment Sub Committee on the investment strategy. 			
Additional Controls/Action Required	<ul style="list-style-type: none"> • Consider the need for an Investment Strategy Review following the latest actuarial valuation. 			
Responsibility:	Investments Sub-Committee; Group Manager (Financial Strategy & Compliance)		Timescale:	March 2014

Pension Fund Administration				
Risk A1. Standing data and permanent records are not accurate or do not reflect changes of circumstances.				
Likelihood:	4	Impact:	2	Risk Rating: 8 MEDIUM
Current Controls	<ul style="list-style-type: none"> • Business processes are in place to identify changes to standing data. 			
	<ul style="list-style-type: none"> • Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input. 			
	<ul style="list-style-type: none"> • Documentation is maintained in line with agreed policy. 			
	<ul style="list-style-type: none"> • Change of details form sent out to members alongside annual statement. 			
	<ul style="list-style-type: none"> • Data matching exercises (National Fraud Initiative) identifies discrepancies. 			
Additional Controls/Action Required	<ul style="list-style-type: none"> • Existing arrangements are sufficient and will continue. 			
Responsibility:	Group Manager (BSC)		Timescale:	On-going

Pension Fund Administration						
Risk A2. Inadequate controls to safeguard pension fund assets.						
A2a. Fund manager mandates						
Likelihood:	2	Impact:	4	Risk Rating:	8	HIGH
Current Controls	<ul style="list-style-type: none"> • Complete and authorised client agreements are in place. This includes requirement for fund managers to report quarterly on their performance. 					
	<ul style="list-style-type: none"> • Client portfolios are managed in accordance with investment objectives. 					
	<ul style="list-style-type: none"> • AAF 01/06 reports on internal controls of service organisations reviewed for external managers. 					
	<ul style="list-style-type: none"> • In House Fund has a robust framework in place which is regularly tested by internal audit 					
	<ul style="list-style-type: none"> • Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 					
Responsibility:	Group Manager (Financial Strategy & Compliance); Senior Accountant - Pensions & TM		Timescale:	On-going		

Pension Fund Administration						
Risk A2. Inadequate controls to safeguard pension fund assets.						
A2b. Custody arrangements						
Likelihood:	2	Impact:	4	Risk Rating:	8	HIGH
Current Controls	<ul style="list-style-type: none"> • Complete and authorised agreements are in place with external custodian. 					
	<ul style="list-style-type: none"> • AAF 01/06 report on internal controls of service organisations reviewed for external custodian. 					
	<ul style="list-style-type: none"> • Regular reconciliations carried out to check external custodian records. 					
	<ul style="list-style-type: none"> • In-house custody arrangements require physical stock certificates to be held in secure cabinet to which access is limited. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 					
Responsibility:	Group Manager (Financial Strategy & Compliance); Senior Accountant - Pensions & TM		Timescale:	On-going		

Pension Fund Administration					
Risk A2. Inadequate controls to safeguard pension fund assets.					
A2c. Accounting arrangements					
Likelihood:	3	Impact:	2	Risk Rating:	6 MEDIUM
Current Controls	<ul style="list-style-type: none"> • Pension Fund accounting arrangements conform to the Local Authority Accounting Code and the Pensions' SORP. 				
	<ul style="list-style-type: none"> • The Pension Fund subscribes to the CIPFA Pensions Network and Technical Information Service and officers attend courses as appropriate. 				
	<ul style="list-style-type: none"> • Regular reconciliations are carried out between in-house records and those maintained by external custodian and investment managers. 				
	<ul style="list-style-type: none"> • Internal Audits are carried out on an annual basis. 				
	<ul style="list-style-type: none"> • External Audit review the Pension Fund's accounts annually. 				
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 				
Responsibility:	Group Manager (Financial Strategy & Compliance); Senior Accountant - Pensions & TM		Timescale:	On-going	

Pension Fund Administration					
Risk A2. Inadequate controls to safeguard pension fund assets.					
A2d. Financial Administration					
Likelihood:	2	Impact:	3	Risk Rating:	6 MEDIUM
Current Controls	<ul style="list-style-type: none"> • The pension fund adheres to the County Council's financial regulations with appropriate separation of duties and authorisation limits for transactions. 				
	<ul style="list-style-type: none"> • Daily cash settlements are made with external custodian to maximise returns on cash. 				
	<ul style="list-style-type: none"> • Investment transactions are properly authorised, executed and monitored. 				
	<ul style="list-style-type: none"> • Contributions due to the fund are governed by Scheme rules which are implemented by the Pensions Manager 				
	<ul style="list-style-type: none"> • The Pension fund maintains a bank account which is operated within regulatory guidelines 				
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 				
Responsibility:	Group Manager (Financial Strategy & Compliance); Senior Accountant - Pensions & TM		Timescale:	On-going	

Pension Fund Administration					
Risk A2. Inadequate controls to safeguard pension fund assets.					
A2e. Pensions Administration					
Likelihood:	3	Impact:	2	Risk Rating:	6 MEDIUM
Current Controls	<ul style="list-style-type: none"> • The Pension fund maintains a bank account which is operated within legislative guidelines 				
	<ul style="list-style-type: none"> • Data is backed up on an incremental basis daily and fully backed up weekly 				
	<ul style="list-style-type: none"> • Audit trails and reconciliations are in place. 				
	<ul style="list-style-type: none"> • There is no home working on the Pensions system (Axis) by Pensions Section staff. 				
	<ul style="list-style-type: none"> • Systems are protected against viruses and other threats. 				
	<ul style="list-style-type: none"> • Software is regularly updated to meet LGPS requirements. 				
	<ul style="list-style-type: none"> • Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input. 				
	<ul style="list-style-type: none"> • Documentation is maintained in line with agreed policy. 				
	<ul style="list-style-type: none"> • Change of details form sent out to members alongside annual statement. 				
Additional Controls/Action Required	<ul style="list-style-type: none"> • Data matching exercises help to identify discrepancies 				
	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 				
Responsibility:	Group Manager (Financial Strategy & Compliance); Group Manager (BSC)		Timescale:	On-going	

Pension Fund Administration					
Risk A2. Inadequate controls to safeguard pension fund assets.					
A2f. Stewardship (Myners' Principle 5)					
Likelihood:	2	Impact:	2	Risk Rating:	4 LOW
Current Controls	<ul style="list-style-type: none"> • The pension fund aims to be a responsible investor and has adopted the FSA' s Stewardship code. 				
	<ul style="list-style-type: none"> • It is a member of Local Authority Pension Fund Forum, National Association of Pension Funds and supports their work on shareholder engagement. 				
	<ul style="list-style-type: none"> • The pension fund has a contract in place for a proxy voting service and voting is reported to the Pensions sub-committee each quarter. 				
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 				
Responsibility:	Group Manager (Financial Strategy & Compliance); Senior Accountant - Pensions & TM		Timescale:	On-going	

Pension Fund Administration						
Risk A3. Inadequate resources are available to manage the pension fund.						
Likelihood:	2	Impact:	3	Risk Rating:	6	MEDIUM
Current Controls	<ul style="list-style-type: none"> • The pension fund is managed by the Pensions & Treasury Management and HR Pensions teams. 					
	<ul style="list-style-type: none"> • Operating costs are recharged to the pension fund in accordance with regulations. 					
	<ul style="list-style-type: none"> • Staffing levels and structures are kept under regular review. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 					
Responsibility:	Group Manager (Financial Strategy & Compliance); Group Manager (BSC)			Timescale:	On-going	

Pension Fund Administration						
Risk A4. Failure to communicate adequately with all relevant stakeholders. (Myners' Principle 6)						
Likelihood:	2	Impact:	2	Risk Rating:	4	LOW
Current Controls	<ul style="list-style-type: none"> • A communications strategy is in place. 					
	<ul style="list-style-type: none"> • Website periodically updated. 					
	<ul style="list-style-type: none"> • Nest Egg newsletter is published twice a year. 					
	<ul style="list-style-type: none"> • The Pensions Investment Sub Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions, Scheduled and Admitted Bodies. 					
	<ul style="list-style-type: none"> • Regular Pension road shows and communication takes place. 					
	<ul style="list-style-type: none"> • Meetings are held regularly with employers within the Fund. 					
	<ul style="list-style-type: none"> • Benefit Illustrations are sent annually to contributing and deferred Fund members. 					
	<ul style="list-style-type: none"> • Annual report prepared in accordance with statutory guidelines which include all key strategies and is published on the website. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 					
Responsibility:	Group Manager (BSC)			Timescale:	On-going	

Regulatory						
Risk R1. Failure to adhere to relevant statutory regulations including updates from LGPS.						
Likelihood:	2	Impact:	3	Risk Rating:	6	MEDIUM
Current Controls	<ul style="list-style-type: none"> • An established process exists to inform members and officers of statutory requirements and any changes to these. 					
	<ul style="list-style-type: none"> • Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme. 					
	<ul style="list-style-type: none"> • Membership of relevant Pensions professional groups ensures changes in statutory requirements are registered before the implementation dates. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor statutory requirements via the DCLG website and Pension Groups meetings. 					
Responsibility:	Group Manager (Financial Strategy & Compliance); Senior Accountant - Pensions & TM			Timescale:	On-going	

Valuation						
Risk V1. Significant variations from assumptions used in the actuarial valuation						
Likelihood:	4	Impact:	4	Risk Rating:	16	VERY HIGH
Current Controls	<ul style="list-style-type: none"> • Assumptions made by actuaries reviewed by officers and members 					
	<ul style="list-style-type: none"> • Sensitivity analysis undertaken on assumptions to measure impact 					
	<ul style="list-style-type: none"> • Valuation undertaken every 3 years 					
	<ul style="list-style-type: none"> • Monitoring of cash flow position and preparation of medium term business plan. 					
	<ul style="list-style-type: none"> • Contributions made by employers vary according to their member profile. 					
Additional Controls/Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 					
Responsibility:	Group Manager (Financial Strategy & Compliance); Senior Accountant - Pensions & TM			Timescale:	On-going	