

September 2022

Lewisham Pension Fund Risk Register 2022/23

Summary Dashboard

| Risk Category | Risk Ref | Risk | Current Scoring | Target Score | Previous Score | Direction of Travel |
|------------------------------------|----------|--|-----------------|--------------|----------------|---------------------|
| Asset and Investment Risk | AI 01 | Funding Risk | 15 | 9 | 15 | - |
| | AI 02 | Concentration Risk | 6 | 4 | 6 | - |
| | AI 03 | Liquidity Risk | 12 | 3 | 12 | - |
| | AI 04 | Currency Risk | 6 | 2 | 4 | - |
| | AI 05 | Transition Risk | 6 | 2 | 4 | - |
| | AI 06 | Manager Underperformance Risk | 9 | 6 | 9 | - |
| | AI 07 | Environmental, Social and Governance Risk | 6 | 4 | 12 | - |
| | AI 08 | Investment Pooling Risk | 12 | 3 | 12 | - |
| Liability Risk | LI 01 | Discount Rate Risk | 6 | 4 | 6 | - |
| | LI 02 | Inflation Risk | 4 | 4 | 4 | Target reached |
| | LI 03 | Salary Increase Risk | 4 | 4 | 4 | Target reached |
| | LI 04 | Longevity Risk | 6 | 4 | 6 | - |
| | LI 05 | Early Retirement Risk | 6 | 4 | 6 | - |
| | LI 06 | Ill-Health Retirement Risk | 4 | 4 | 4 | Target reached |
| | LI 07 | Regulatory Risk | 12 | 12 | 20 | - |
| Employer Risk | EM 01 | Financial Risk | 9 | 4 | 9 | - |
| | EM 02 | Administration Risk | 4 | 4 | 4 | Target reached |
| | EM 03 | Reputational Risk | 4 | 4 | 4 | Target reached |
| Resource and Skill Risk | RS 01 | Inadequate Staffing | 12 | 4 | 12 | - |
| | RS 02 | Inadequate Resources for Support Staff | 4 | 1 | 4 | - |
| | RS 03 | Inadequate Knowledge and Skills – Pensions Committee and Pension Board | 12 | 4 | 12 | - |
| | RS 04 | Inadequate Knowledge and Skills - Officers | 9 | 4 | 9 | - |
| Administrative and Governance Risk | AG 01 | Failure or Unavailability of ICT | 6 | 4 | 6 | - |
| | AG 02 | Delays to Pensions Payroll | 4 | 4 | 4 | Target reached |
| | AG 03 | Over-Reliance on/ Loss of Key Staff | 12 | 2 | 12 | - |
| | AG 04 | Data Quality | 6 | 3 | 6 | - |
| | AG 05 | Professional Advice | 4 | 4 | 4 | Target reached |
| | AG 06 | Legislative and Regulatory Changes | 12 | 6 | 12 | - |
| | AG 07 | Third Party Provider Risk | 9 | 4 | 9 | - |
| | AG 08 | Data Protection Risk | 6 | 6 | 6 | Target reached |
| | AG 09 | Fraud or Fraudulent Behaviour | 6 | 2 | 6 | - |
| | AG 10 | Cyber Threats | 15 | 10 | 15 | - |
| | AG 11 | Inappropriate Decision-making | 9 | 6 | 9 | - |
| | AG 12 | Operational Disaster – Fire/ Flood/ Pandemic | 6 | 4 | 10 | - |
| Regulatory and Compliance Risk | RC 01 | Non-compliance Risk – Statement of Accounts | 6 | 6 | 9 | - |
| | RC 02 | Non-compliance Risk – Other | 9 | 6 | 9 | - |

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Scoring and Risk Owner Keys

| Likelihood Key | Impact Key |
|--------------------|-------------------|
| 1 – Rare | 1 – Insignificant |
| 2 – Unlikely | 2 – Minor |
| 3 – Possible | 3 – Moderate |
| 4 – Likely | 4 – Major |
| 5 – Almost Certain | 5 – Extreme |

| Risk Scoring | Risk response | Number of Risks |
|---------------------|--|-----------------|
| Low (1-4) | Manage by routine procedures; unlikely to need specific or significant application of resources. | 10 |
| Low/Medium (5-9) | Manage by specific monitoring or response procedures. | 15 |
| Medium/High (10-15) | Senior management attention needed, and management responsibility specified. | 10 |
| High (16-25) | Immediate action and response required. | 1 |

| Risk Owner Key |
|--|
| Pensions Investment Committee - PIC |
| Pensions Board – PB |
| Executive Director of Corporate Resources - EDR |
| Director of Corporate Resources – DCR |
| Interim Head of Payroll and Pensions - HPP |
| Pensions Manager – PM |
| Principal Accountant – PA |

| Identification of Risk | | | Current Scoring | | | Risk Mitigation | | Target Scoring | | | Review | | | |
|----------------------------------|---|---|-----------------|--------|-------------|---|---|----------------|--------|-------------|----------------|---------------------|------------|-------------------|
| Ref | Risk Overview | Risk Drivers | Likelihood | Impact | Risk rating | Existing Controls | Additional Requirements/ Controls | Likelihood | Impact | Risk rating | Previous Score | Direction of Travel | Risk Owner | |
| Asset and Investment Risk | | | | | | | | | | | | | | |
| AI 01 | Funding risk – the risk that the Fund’s assets fail to deliver returns as anticipated and/or fail to grow in line with the developing cost of liabilities over the medium-long term. | <ul style="list-style-type: none"> Unexpected inflation or pay growth may increase pension and benefit payments to a greater extent/at greater speed than asset returns. Unanticipated market movements may negatively impact asset growth compared to forecasts. | 3 | 5 | 15 | <ol style="list-style-type: none"> Actuarial valuations take into account: <ul style="list-style-type: none"> Future investment performance/ discount rates, which are estimated on a relatively prudent basis to reduce risk of under-performance. Progress of all employers in the Fund, which is monitored at least annually. A Funding Strategy Statement is prepared at least every three years as part of the triennial valuation. | <ul style="list-style-type: none"> Consider engagement of independent adviser to challenge/ confirm Investment Strategy decisions. | 3 | 3 | 9 | 15 | | | EDR DCR PIC |

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| Ref | Risk Overview | Risk Drivers | Likelihood | Impact | Risk rating | Existing Controls | Additional Requirements/ Controls | Likelihood | Impact | Risk rating | Previous Score | Direction of Travel | Risk Owner |
| | | <ul style="list-style-type: none"> The Fund's Investment Strategy Statement and/or Funding Strategy may contain flawed assumptions. | | | | <p>3. An Investment Strategy Statement is prepared and considered an integral part of the Funding Strategy, with asset modelling used to determine the best benchmark allocation of assets to meet the Funding objectives. It is reviewed at least every three years.</p> <p>4. Asset allocation includes acceptable ranges of deviation to allow for market movements and rebalancing arrangements for when those limits are breached.</p> <p>5. Ongoing performance monitoring; monthly reporting from the Fund's custodians, quarterly reporting from the Fund's advisors, annual reporting from the Fund's benchmarking provider.</p> | | | | | | | |
| AI 02 | Concentration Risk | <ul style="list-style-type: none"> Concentration of assets in a single asset class, geography or manager where underperformance relative to expectations would result in difficulties meeting funding objectives. | 2 | 3 | 6 | <p>1. Assets are invested on the basis of professional, specialist advice, in a diversified manner across asset classes, geographies, managers etc.</p> <p>2. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager processes which, taken in aggregate, help reduce the Fund's asset concentration risk.</p> | | 2 | 2 | 4 | 6 | | EDR DCR PIC |

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| AI 03 | Liquidity Risk – the risk that the Fund is unable to meet its immediate liabilities due to insufficient liquid assets. | <ul style="list-style-type: none"> Maturing fund – when the cost of pension payments exceeds contributions income, there will be pressure on the Fund to maintain liquidity and generate enough cash to meet day to day cash requirements. | 3 | 4 | 12 | <ol style="list-style-type: none"> Liquidity management is featured as part of the strategic asset allocation, with a further 6-9% to be transitioned to income assets in the next 12 months. <u>The Funds liquidity risk has increased marginally as the rebalancing has resulted in slightly lower levels of equities held, although marginally.</u> | <ul style="list-style-type: none"> Cash flow projections for the short-medium term to evaluate liquidity risk, ensure adequate liquidity to meet pension payments/capital calls as they fall due, and avoid the likelihood of forced sales. Officers to discuss with advisers in Q4 2020. | 1 | 3 | 3 | 12 | | DCR PA |
| AI 04 | Currency Risk – where a variation in the prices of assets relative to liabilities is caused by movement in currency rates. | <ul style="list-style-type: none"> Over exposure to volatile currencies. The appreciation of sterling relative to other currencies, given the proportion of Fund's assets denominated in currencies other than sterling (approx. 10%). | 2 | 2 | 6 | <ol style="list-style-type: none"> <u>The Fund invests in a range of overseas markets which provides a diversified approach to currency markets.</u> <u>The recent funding of low carbon equities mandates has meant a larger proportion of the Fund is now held in US\$.</u> | | 1 | 2 | 2 | 4 | | PIC |
| AI 05 | Transition Risk – the risk of incurring unexpected costs relating to the movement of assets among managers. | <ul style="list-style-type: none"> Market movements e.g. the impact of Coronavirus on equity valuations. Transition to a pooling vehicle may incur unknown costs. | 2 | 2 | 6 | <ol style="list-style-type: none"> The Fund's investment advisers provide advice on the inherent risks, timing and nature of transitions in line with the decisions of PIC, taken in the wider context of the Investment Strategy. <u>The Fund appointed a specialist transition manager for the transfer to the three low carbon passive equity mandates in 2021 which reduced transition costs for the Fund, however until the final funding for the emerging market mandate is complete this risk remains higher than previously.</u> | | 1 | 2 | 2 | 4 | | PIC DCR PA |

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Deleted: <#>The Fund may appoint a specialist transition manager if necessary.¶

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| Ref | Risk Overview | Risk Drivers | Likelihood | Impact | Risk rating | Existing Controls | Additional Requirements/ Controls | Likelihood | Impact | Risk rating | Previous Score | Direction of Travel | Risk Owner |
| AI 06 | Manager Underperformance Risk – the failure of fund managers to achieve expected investment returns. | <ul style="list-style-type: none"> Markets perform against expectations, prevailing market conditions change contrary to a manager's style of management or fund structure, leading to periods of outperformance and underperformance. Due diligence and manager selection process not thorough enough. Departure of key personnel/high turnover of investment team. | 3 | 3 | 9 | <ol style="list-style-type: none"> Passive management of approx. 70% of the Fund – reduces risk of underperformance, where managers generally deliver returns in line with benchmark expectations. The Fund has appointed several managers across diversified assets to reduce the risk of any one manager underperforming. Ongoing performance monitoring; monthly reporting from the Fund's custodian, quarterly reporting to PIC from the Fund's advisors, annual reporting from the Fund's benchmarking provider. Managers regularly present to, and update, PIC; officers regularly meet and engage with managers. Manager selection exercises are undertaken with assistance from Fund's advisers. | <ul style="list-style-type: none"> Review of benchmarks used by custodian to ensure performance is being correctly recorded in performance reporting. | 2 | 3 | 6 | 10 | | PIC DCR PA |
| AI 07 | Environmental, Social and Governance (ESG) Risks – the risk that ESG related factors reduce the Fund's ability to generate long-term returns. | <ul style="list-style-type: none"> Not investing in funds that manage social concerns appropriately, e.g. protection of consumers, labour rights, diversity and inclusion policies, human rights, health and safety etc. Funds which exhibit poor social practices are susceptible to litigation, and potentially poorer levels of financial performance. | 4 | 3 | 6 | <ol style="list-style-type: none"> The Fund's overall ESG policy is included in its Investment Strategy Statement. The Fund has established a set of 5 Climate Objectives (CO) to drive future investment. PIC has established a Statement of Investment Beliefs (SIB) which sets out the overriding principles by which the Committee make investment decisions; this includes beliefs on governance, | <ul style="list-style-type: none"> Carry out an audit of fund manager's ESG Policies to see if they are consistent with the Fund's ESG Policies and the Committee's beliefs. Improve engagement with managers to identify the extent to which ESG factors are considered within the investment process, and establish degree of comfort that | 2 | 2 | 4 | 12 | | PIC DCR PA |

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| | | <ul style="list-style-type: none"> Investing in funds that suffer from corporate governance failures, e.g. use of child labour in overseas production, poor safety records resulting in death or injury, mis-selling scandals, rogue trading. Fossil fuel linked investments suffer losses due to stranded assets and reputational damage. Not managing exposure to environmental risk (including climate change risk) can leave the Fund susceptible to challenge from legal and pressure groups. | | | | <p>responsible investment, and climate change.</p> <ol style="list-style-type: none"> The majority of the Fund's managers have signed up to the UK Stewardship Code. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages and acts on behalf of members by promoting high standards of corporate governance and responsibility. The Fund's advisers explicitly model potential government corporate policies on climate change when reviewing its Funding and Investment Strategies. The Fund takes advice from actuarial and investment advisers to improve understanding of ESG issues. The Fund's 2020-23 Investment Strategy actively seeks to transition its existing passive equity holdings into a low carbon passive-like mandate, and also allocates up to 6% of the Fund to new low-carbon mandates (including renewable infrastructure). | <p>these risks are being appropriately managed on the Fund's behalf.</p> <ul style="list-style-type: none"> Create a formal Responsible Investment (RI) policy to incorporate SIB, CO and ESG Policies per the Investment Strategy Statement. | | | | | | |
| AI 08 | Investment Pooling Risk – the risk that the London CIV (LCIV) fails to meet the Fund's needs. | <ul style="list-style-type: none"> The transition of the Fund's assets to LCIV will see a transfer of some risks to the pool operator, changes to existing Fund risks, and the creation of new risks, including asset and investment risk, employer risk, resource | 3 | 4 | 12 | <ol style="list-style-type: none"> The Fund is a founding shareholder of the LCIV and has shareholder input at Member and officer level. Member representation at LCIV's AGM. Member and officer involvement in LCIV mandate developments via consultation and Seed Investment Groups (SIG). | <ul style="list-style-type: none"> More work required to understand the role of LCIV's oversight committee & its own risk management arrangements and processes. | 1 | 3 | 3 | 12 | | EDR DCR PIC PA |

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| | | and skill risk, reputational risk, and regulatory and compliance risk. <ul style="list-style-type: none"> Asset pooling may restrict the Fund's ability to fully implement its desired strategy. | | | | 4. Officers maintain regular contact with LCIV via client meetings, business update meetings, and 'meet the manager' sessions. | | | | | | | |
| Liability Risk | | | | | | | | | | | | | |
| LI 01 | Discount Rate Risk – the risk that the set discount rate (based on a prudent view of future investment returns) does not reflect actual returns or market volatility. | <ul style="list-style-type: none"> Largely a measurement risk since liability cash flows do not change, but risk largely driven by the actual cost of benefits being higher than expected due to investment returns being lower than originally assumed. | 3 | 2 | 6 | 1. The Fund adopts a prudent discount rate assumption at triennial valuation as a cushion against reductions in future investment returns. | <ul style="list-style-type: none"> Regular monitoring of changes in market conditions between triennial valuations, perhaps on a quarterly or bi-annual basis, can provide early warning of changes in the outlook for future investment returns. | 2 | 2 | 4 | 6 | | EDR DCR |
| LI 02 | Inflation Risk – the risk of incorrect inflationary assumptions used in the Fund valuation. | <ul style="list-style-type: none"> Unexpected inflation or pay growth increases pension and benefit payments, and assets do not grow fast enough to meet the increased cost. | 2 | 2 | 4 | 1. The Fund adopts a prudent inflation assumption at triennial valuation as a cushion against increases in future inflation expectations. 2. The Investment Strategy is set so as to provide exposure to assets providing inflation protected growth | | 2 | 2 | 4 | 4 | | EDR DCR |
| LI 03 | Salary Increase Risk – the risk of incorrect salary increase assumptions used in the Fund valuation. | <ul style="list-style-type: none"> When salary increases actually awarded are higher than the assumed increase in the triennial valuation. | 2 | 2 | 4 | 1. The Fund adopts a prudent salary increase assumption at triennial valuation as a cushion against unexpected salary increases. | | 2 | 2 | 4 | 6 | | EDR DCR |

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| | | | | | | 2. Employers may have some control over the award of salary increases through pay award negotiations. | | | | | | | |
| LI 04 | Longevity Risk – the risk of incorrect life expectancy assumptions used in the Fund valuation. | <ul style="list-style-type: none"> Future life expectancy, and the allowance for future improvements in life expectancy, is uncertain. There is a risk that members will live longer than expected, resulting in benefits being paid for longer. Maturing fund – the proportion of active members declines relative to retired employees. | 3 | 2 | 6 | <ol style="list-style-type: none"> The Fund set mortality assumptions with a prudent allowance for future increases in life expectancy, as a cushion against faster than expected improvements. Regular monitoring of longevity and other demographic factors through the triennial valuations and interim valuations; experience analyses provides early warning of any expected increase in contributions and costs. Regular updates from the fund actuary on general longevity experience within UK pension funds and national trends, e.g. from population statistics, through the Fund's Club Vita membership | | 2 | 2 | 4 | 6 | | EDR DCR |
| LI 05 | Early Retirement Risk – the risk that members retire earlier than assumed in the Fund valuation. | <ul style="list-style-type: none"> Members retiring for financial freedom, or due to perceived unfavourable changes to working conditions. Liabilities for members who retire earlier than assumed in the triennial valuation and receive no reduction in benefits will be higher than expected. | 3 | 2 | 6 | <ol style="list-style-type: none"> The Fund adopts a prudent assumption for early retirements at triennial valuation as a cushion against higher than expected retirement. Employers are required to make capital contributions in respect of pensions strain arising from early retirements as a result of redundancy or on efficiency grounds. Updates from the Fund actuary through the triennial valuation process or more regularly (and advises employers of the effect on their contributions). | | 2 | 2 | 4 | 6 | | EDR DCR |

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| LI 06 | Ill-Health Retirement Risk – the risk that more members retire due to ill health than assumed in the Fund valuation. | <ul style="list-style-type: none"> Where more members are granted higher tier benefits, the Fund's liabilities will increase and employer contributions may need to increase accordingly. | 2 | 2 | 4 | 1. Regular monitoring of ill-health experience through the triennial valuations and interim valuations/ experience analyses to provide early warning of changes in future costs. | | 2 | 2 | 4 | 4 | | EDR DCR |
| LI 07 | Regulatory Risk – the extent to which legislative and regulatory changes impact the Fund. | <ul style="list-style-type: none"> Changes to the LGPS where benefits are governed by statute; for example, McCloud, Goodwin, exit payment cap etc. Changes by Government to particular employer participation in LGPS funds, leading to impacts on Funding and/or Investment Strategies. | 5 | 4 | 12 | <ol style="list-style-type: none"> The Fund's actuary provides regular updates to Members and officers and assists in adhering to new regulations. Following SAB advice, an allowance for certain forthcoming regulatory changes (McCloud and Goodwin) were built into the triennial valuation of the Fund; in interim periods, further updates regarding the impact of regulatory change may be required. Officers consider all consultation papers issued by the Government, in conjunction with the Fund's advisers, and comments where appropriate. Members and officers keep abreast of regulatory changes through attendance at LGPS conferences and training, membership of national advisory bodies, and communication with the LGPS Scheme Advisory Board (or its working groups). | <ul style="list-style-type: none"> Project planning for how to approach and manage the forthcoming regulatory and legislative changes. Resource planning for managing forthcoming regulatory and legislative changes. | 3 | 4 | 12 | 20 | | EDR DCR HPP PM |
| Employer Risk | | | | | | | | | | | | | |
| EM 01 | Financial Risk – the risk that employers cannot | <ul style="list-style-type: none"> Rise in unanticipated ill-health or early retirements, | 3 | 3 | 9 | 1. Officers work with the Fund's actuary to make an objective assessment of the strength of an employer's covenant (to | | 2 | 2 | 4 | 9 | | EDR HPP PM |

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| | meet their obligations to the Fund, and/or other employers become liable for their deficits. | <p>leading to contribution shortfall.</p> <ul style="list-style-type: none"> Market conditions lead to employees opting out of LGPS, or employers deciding they can no longer afford the required level of contributions. | | | | <p>include an analysis of financial position, forward-looking prospects and the ongoing ability to pay the necessary employer contributions.</p> <ol style="list-style-type: none"> Officers work with the Fund's actuary to calculate cessation valuations when an employer is due to leave the Fund. The Pensions Team maintains a close relationship with employing bodies to identify any potential issues at an early stage, and communicates required standards. Officers monitor and reconcile contributions received against those expected. Reminders are sent to employers when they fail to meet payment deadlines, or if payment amounts differ to that expected. | | | | | | | | |
| EM 02 | Administration Risk – the risk that employers maintain poor records and provide inaccurate information. | <ul style="list-style-type: none"> Poor employer knowledge bank and/or record-keeping maintained by the Council, or inadequate monitoring of records/information, which prevents the identification of employers that may pose the greatest risk. | 2 | 2 | 4 | <ol style="list-style-type: none"> Officers monitor and maintain records of employers in the Fund, e.g. number of participating members, promptness of contribution payments etc. Employers are made aware of their responsibilities and payment procedures when admitted to the scheme/ as part of their admission agreements. | | 2 | 2 | 4 | 4 | | HPP PM | |
| EM 03 | Reputational Risk – the risk of adverse publicity arising from interactions with, or failure of an employing authority. | <ul style="list-style-type: none"> Inaccurate information in the public domain leads to damage to reputation and loss of confidence. Complaints not handled appropriately or in time. | 2 | 2 | 4 | <ol style="list-style-type: none"> Officers maintain constructive relationships with Fund employers. Processes are in place for responding to FOIs, Member/Public questions, and employer queries. | | 2 | 2 | 4 | 4 | | HPP PM | |

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| Resource and Skill Risk | | | | | | | | | | | | | |
| RS 01 | Inadequate Staffing | <ul style="list-style-type: none"> High staff turnover Regular staff absence Poor recruitment | 4 | 3 | 12 | <ol style="list-style-type: none"> The Council has a standard recruitment policy in place. Utilisation of additional resourcing (e.g. Hymans Robertson and/or independent advice) if needed, where staff shortfalls prevent internal specialisation. | <ul style="list-style-type: none"> Preparing annual business plans which identify short and long term resource requirements. Improved retention policies and procedures where skills are in high demand/short supply. | 2 | 2 | 4 | 12 | | EDR DCR |
| RS 02 | Inadequate Resources for Support Staff | <ul style="list-style-type: none"> Out-of-date or inadequate software. A lack of basic office equipment, e.g. working from home due to the Coronavirus pandemic where staff may not have access to the same resources they would in the workplace. | 2 | 2 | 4 | <ol style="list-style-type: none"> Budgetary provisions are made for staff and resources to meet demands of the service. Regular retendering of pensions administration contracts with third party suppliers to ensure required standards are included in contract specifications. The Council has a remote working policy, and a 'buy your own devices' policy to enable staff to purchase equipment needed to work from home. | | 1 | 1 | 1 | 4 | | EDR DCR |
| RS 03 | Inadequate Knowledge and Skills – Pensions Committee and Pension Board. | <ul style="list-style-type: none"> Change of membership/high turnover of membership. Low attendance at meetings. New members not sufficiently inducted or signposted to learning | 4 | 3 | 12 | <ol style="list-style-type: none"> Induction training is offered to new Members when joining PIC. Training is provided by the Fund's investment adviser, particularly in those specific asset classes relevant to the Fund and when acquiring new mandates. Officers signpost a quarterly selection of recommended conferences, workshops | <ul style="list-style-type: none"> Induction programme to be developed for the Pension Board | 2 | 2 | 4 | 12 | | PIC PB DCR PA |

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| | | <p>opportunities/ requirements.</p> <ul style="list-style-type: none"> Poorly designed training programmes. | | | | <p>and training events to PIC and Pension Board members.</p> <ol style="list-style-type: none"> PIC and Pension Board members are requested to complete the Pensions Regulator's Public Service Toolkit. Training logs are maintained and reported on in the Fund Annual Report. PIC Members have committed to attending a minimum of 5 hours of training each per year, to satisfy the requirements of MiFID II. Pension Board members are required to undertake learning needs analyses and identify their training requirements. Annual skills audits are conducted to ensure skills remain relevant to the roles being undertaken, identifying any learning gaps and preparing tailored training in response to these gaps. | | | | | | | |
| RS 04 | Inadequate Knowledge and Skills - Officers. | <ul style="list-style-type: none"> Lack of, or inadequate, staff training policies or opportunities. Knowledge is concentrated in a small number of officers, risking knowledge drain if those staff leave the authority. Increased workloads reduces time for skills development and training opportunities. | 3 | 3 | 9 | <ol style="list-style-type: none"> The Fund is a member of, subscribes, and has access to several organisations that assist officers to maintain their knowledge and keep abreast of changes to the LGPS, e.g. LGA, GAD, LAPFF, LPFF, PLSA, SAB, etc. Actuarial, investment, independent advice is available where knowledge or skills fall short. Staff with professional qualifications relevant to their job roles. | <ul style="list-style-type: none"> Succession planning for key roles to mitigate loss of knowledge from planned or unplanned departures. Improved networking with other LGPS administration teams, particularly those where senior members of the team have previously worked and relationships already exist, to improve knowledge sharing. | 2 | 2 | 4 | 9 | | EDR DCR HPP PM PA |

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| Administrative and Governance Risk | | | | | | | | | | | | | |
| AG 01 | Failure or Unavailability of ICT. | <ul style="list-style-type: none"> • Unscheduled system maintenance, downtime, or outages. • Outdated or incompatible software. • Loss of data due to system failure. | 2 | 3 | 6 | <ol style="list-style-type: none"> 1. Lewisham Information Security Policy – includes technical measures in place to maintain backups of files and emails. 2. Corporate Business Continuity Plan in place to respond to potential loss of critical infrastructure, systems and data. 3. Custodian and fund manager portals can be accessed from any browser/device outside of the Lewisham network. 4. The Fund's bank account can be monitored by phone, and payments processed manually as per the authority's Business Continuity Plans for Finance (covering Treasury Management and Financial Transactions). 5. IT maintenance is scheduled for non-working hours where possible. | | 2 | 2 | 4 | 6 | | EDR |
| AG 02 | Delays to Pensions Payroll | <ul style="list-style-type: none"> • ICT failure. • Staff absence. | 1 | 4 | 4 | <ol style="list-style-type: none"> 1. Clear procedure notes in place for processing payroll. | <ul style="list-style-type: none"> • Further training in payroll/ systems to be undertaken in Oracle Cloud. | 1 | 4 | 4 | 4 | | EDR HPP PM |
| AG 03 | Over-Reliance on/ Loss of Key Staff | <ul style="list-style-type: none"> • Knowledge is concentrated in a small number of officers, risking knowledge drain if those staff leave the authority. • Unequal distribution of workloads creating reliance on certain staff. | 4 | 3 | 12 | <ol style="list-style-type: none"> 1. Staff appraisal programme to identify opportunities for upskilling, job rotation, and fair distribution of work. 2. Comprehensive process notes developed and in place. | <ul style="list-style-type: none"> • Succession planning helps to mitigate and manage the loss of key staff, and is currently being reviewed by the interim Head of Payroll and Pensions. | 1 | 2 | 2 | 12 | | EDR DCR HPP |

| Identification of Risk | | | Current Scoring | | | Risk Mitigation | | Target Scoring | | | Review | | |
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| AG 04 | Data Quality – the risk of complaints, fines, or incorrect valuation assumptions due to poor data quality. | <ul style="list-style-type: none"> Employers do not understand or meet their responsibilities, provide poor quality data, are unable to resource their pensions obligations, or have poor engagement with the Fund. Officers do not understand or are unaware of their responsibilities, maintain poor quality data, or do not ensure data is reviewed on a regular basis. | 2 | 3 | 6 | <ol style="list-style-type: none"> Communications Strategy sets out how Fund will engage with all stakeholders. Reconciliations and review of the recording of pay and pensions by officers, as well as running Altair reports for verification. Segregation of duties so that reconciliations are reviewed by a second individual. | <ul style="list-style-type: none"> Administration Policy to be developed. | 1 | 3 | 3 | 6 | | HPP PM PA |
| AG 05 | Professional Advice – the risk that professional advice is not sought or heeded, or proves to be insufficient. | <ul style="list-style-type: none"> Not enough time to seek the appropriate level of advice. Advice is ignored or not acted upon. | 1 | 4 | 4 | <ol style="list-style-type: none"> Members and officers maintain close contact with its specialist advisers. Investment advice is delivered via formal meetings involving elected Members and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review. | <ul style="list-style-type: none"> Retendering of actuarial (and investment advisory) services to take place in early 2021. | 1 | 4 | 4 | 4 | | EDR DCR PIC |
| AG 06 | Legislative and Regulatory Changes – the risk of complaints or fines due to incorrect adoption or incorrect calculation of regulatory changes. | <ul style="list-style-type: none"> Challenging implementation of major regulatory reform. Complexity of new regulations gives rise to heightened risk of error in calculations | 3 | 4 | 12 | <ol style="list-style-type: none"> Use of Altair to ensure calculations are correct (e.g. for transitional protections). Officers attend and enrol in professional forums and events to keep up to date with legislative or regulatory changes. Support is provided by LGA and the actuary where necessary. | | 2 | 3 | 6 | 12 | | HPP PM |

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| AG 07 | Third Party Provider Risk | <ul style="list-style-type: none"> Third party IT systems failing, or not adapting to meet regulatory changes. Underperformance of provider. Poorly resourced, poor contract management, incorrect contract specification. | 3 | 3 | 9 | <ol style="list-style-type: none"> Third party suppliers used are reputable and fall within pension administration framework agreements. Appropriate oversight and monitoring by the Pensions Team for assurance of controls in place. Regular meetings with contractors to discuss performance and service improvements. | | 2 | 2 | 4 | 10 | | HPP PM |
| AG 08 | Data Protection Risk – the risk of financial penalty or reputational damage due to data mismanagement. | <ul style="list-style-type: none"> ICT failure. Fraud. Security of paper documents, especially when out of the office (e.g. handling paperwork at home due to the Coronavirus pandemic). | 2 | 3 | 6 | <ol style="list-style-type: none"> Officers have completed compulsory GDPR training. Lewisham Information Security Policy – includes technical measures to help protect information including anti-virus updates, software patches, encryption, permissions management, and system backups. Secure email is available via the Council's standard email or via CJSM or Egress Switch. | | 2 | 3 | 6 | 6 | | HPP PM |
| AG 09 | Fraud or Fraudulent Behaviour – the risk that someone deliberately acts to deprive the Fund of its assets, or to obtain personal benefit from his or her position. | <ul style="list-style-type: none"> Opportunities to commit fraud can arise due to a temporary situation where the risk of being caught is low. Lapsed controls, or loopholes identified by those intent on fraudulent behaviour. | 2 | 3 | 6 | <ol style="list-style-type: none"> Appropriate system of checks and authorisations for death and transfer cases. Separation of duties for upload, checking, approval, input and processing of payments from the Pension Fund bank account. "Confirmation of Payee" initiative used by bank to target and prevent impersonation fraud, invoice redirection and new payment fraud. | | 1 | 2 | 2 | 6 | | EDR DCR HPP PM PA |

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| | | | | | | <ol style="list-style-type: none"> Monthly reconciliation of Pension Fund bank account to identify and code all income/payments. Internal audit acts as an appraisal and advisory service and can review, identify and advise on internal controls regarding fraud prevention. Fund managers are requested to submit internal control reports which are reviewed by external audit. | | | | | | | |
| AG 10 | Cyber Threats – the risk of vulnerability to, and impact of, cyber-attacks that result in different types of breaches. | <ul style="list-style-type: none"> Failure of ICT. Accidental loss of hardware (laptop, mobile, USB device). Accidental loss of electronic data. Generic malware. Untargeted attacks from 'hobbyist' hackers. Targeted attacks from ex-employees, customers, current employees or anonymous activists. State-sponsored attacks, cyber-criminal/terrorists. | 3 | 5 | 15 | <ol style="list-style-type: none"> Lewisham Information Security Policy – includes technical measures to help protect IT systems including anti-virus updates, software patches, encryption, and firewalls. 'Spam email' blocking software and a dedicated mailbox for reporting spam/phishing attacks. Fund bank account can only be accessed by authorised users with access to a bank smartcard, card reader, and PIN unique to the card/user. Fund bank account responsibilities are segregated so that no single user, whether compromised or not, can input and approve payments; any changes to these authorisations require confirmations from two system administrators. | <ul style="list-style-type: none"> Create a formal Fund Security Policy, to include an assessment of the scheme's 'cyber footprint' – scheme's key functions, systems and assets, vulnerabilities and impact of breaches. Member/officer training required on cyber threats. Undertake testing of security measures and protocols in place for the Fund; penetration testing, testing of staff to gauge reactions to typical threats. Consider appointing an ICT Compliance Officer for reporting to the Pensions Board. | 2 | 5 | 10 | 15 | | EDR DCR HPP PM PA |

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| | | | | | | 5. Lewisham's ICT Acceptable Use Policy – to restrict use that may leave the Council's systems vulnerable to attack. 6. Lewisham managed devices are password protected to prevent unauthorised access. | | | | | | | |
| AG 11 | Inappropriate Decision-making. | <ul style="list-style-type: none"> High staff turnover at officer, PIC or Pension Board level. Lack of oversight at senior officer, PIC or Pension Board level. Undisclosed conflicts of interest. Decision making process is too rigid. Poor monitoring of political and public sector landscape. | 3 | 3 | 9 | 1. Oversight by the Pension Board to assist the scheme secure compliance with relevant LGPS regulations; reviews and comments on governance, administration and decision-making within the scheme. 2. Knowledge and Training Policy in place for Pension Board members. 3. Investment Committee and Pension Board members are required to disclose conflicts of interest at meetings. 4. A Conflict of Interest Policy and Register of Interests is maintained. 5. Professional advice received from the Fund's investment adviser and actuary to aid decision-making. | | 2 | 3 | 6 | 9 | | EDR HCR PIC PB |
| AG 12 | Operational Disaster – Fire/ Flood/ Pandemic | <ul style="list-style-type: none"> Covid-19 and its associated impact on the administration and governance of the Fund. | 5 | 2 | 6 | 1. Business Continuity Plans are in place. 2. Remote and flexible working practices and policies enable staff to work away from the office, e.g. increased use of digital platforms to communicate, multiple devices with which to work and communicate, etc. 3. Documentation is saved on Council IT network, available from any location via a | | 2 | 2 | 4 | 10 | | EDR DCR |

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| | | | | | | <p>Council managed device or own devices via 2FA.</p> <p>4. Government guidelines to be followed in the event of a pandemic – Committee meetings continue virtually.</p> | | | | | | | |
| Regulatory and Compliance Risk | | | | | | | | | | | | | |
| RC 01 | Non-compliance Risk – Statement of Accounts | <ul style="list-style-type: none"> Material misstatement due to incorrect accounting practices, poor judgement or breaches of the law that potentially result in a qualified audit opinion. Changes to accounting requirements that are incorrectly implemented. Poor quality of data and/or recordkeeping. | 3 | 3 | 9 | <ol style="list-style-type: none"> Qualified CIPFA officers produce Statement of Accounts in accordance with the CIPFA Accounting Code of Practice. Accounts are reviewed by the Executive Director of Corporate Resources, also a qualified CIPFA accountant. Reconciliations of key control accounts, custodian valuations, manager valuations, and the Fund’s ledger. Reconciliations are reviewed and signed off by a second officer. External audit of accounts identifies audit findings which if implemented will avoid a qualified opinion. | <ul style="list-style-type: none"> Quarterly or bi-annual accounts could be produced to improve in-year monitoring and reduce workload/risk of error at year-end. | 2 | 3 | 6 | 9 | | EDR HCR |
| RC 02 | Non-compliance Risk - Other | <ul style="list-style-type: none"> Weak business processes that give rise to non-compliance through either poorly designed processes, not understanding the regulatory requirements, or not knowing the requirements exist. | 3 | 3 | 9 | <ol style="list-style-type: none"> Officers engage in statutory consultation periods to obtain early sight of planned changes to legislation and increase understanding of changes. Members and officers attend relevant training events and conferences. Members and officers engage with formal and informal networks. | <ul style="list-style-type: none"> Plan a follow-up compliance review following initial review in April 2019. | 2 | 3 | 6 | 9 | | EDR HCR |

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| | | <ul style="list-style-type: none"> Inadequate staffing or training of staff to understand their responsibilities | | | | <ol style="list-style-type: none"> Pension Board work plan is designed to cover all areas of applicable Fund governance and administration to help identify and avoid statutory breaches. A Breaches of the Law Policy and Breaches Log is in place. Professional advice from the Fund's investment adviser and actuary is available. Internal and external audit reviews. The Council provides legal support to review PIC papers, key fund documents, and provide general legal advice when required. Independent compliance reviews to assess the Fund's compliance to the Pension Regulator's Code of Practice and the Scheme Advisory Board Requirements. | | | | | | | |