



# **Enfield Pension Fund Risk Management Policy and Internal Control Measures**

## 1. Introduction

This document is the Risk Management Policy of the Enfield Pension Fund (the “Fund”), which is managed and administered by London Borough of Enfield. The Council delegates this responsibility to the Pension Policy and Investment Committee (PPIC). In recognition of the PPIC’s fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers, this document sets out:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Enfield (“we”) recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks and ensuring risk management is an integral part in the governance of the Enfield Pension Fund at a strategic and operational level.

## 2. Background

Risk can be defined as the combination of the likelihood of an event occurring and the level of impact on the Pension Fund’s ability to achieve its objectives if it does occur. Pension funds exist in order to pay future pension benefits. No organisation can completely eliminate risk due to the inherent uncertainties of the global economic environment, and it is therefore a risk that the investment assets of pension funds will be less or more than the pension liabilities. This Risk Policy & Strategy sets out a common basis for risk management.

## 3. To whom this policy applies

This Risk Policy applies to all members of the Pensions Policy & Investment Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the London Borough of Enfield Pension Fund Management Team,

the Chief Finance Officer (Section 151 Officer) and the Director of Finance, (from here on, collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Enfield Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pension Investments.

Advisers to the Enfield Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

## 4. Risk Areas & Types

Broadly the types of risk that the Fund is exposed to fall into the following broad categories:

- i) Financial – These relate to insufficient funding to meet liabilities, loss of money, poor financial monitoring with the consequence being the requirement for additional funding from the Council and other employers.
- ii) Strategic – Failure to meet strategic objectives, such as performance targets, Funding Strategy Statement objectives.
- iii) Regulatory – Regulatory changes, failure to comply with legislation, to meet statutory deadlines.
- iv) Reputational – Poor service damaging the reputation of the Fund.
- v) Operational – Data maintenance, service delivery targets.
- vi) Contractual – Service providers, failure to deliver, effective management of contracts.
- vii) Communication – Failure to keep all stakeholders notified of issues that affect them, be they employers, scheme members or contractors.

## 5. Risk Policy

Risk should be eliminated, transferred or controlled as far as possible (Some risks may be tolerated depending on the likelihood of them occurring and the impact of them when they occur). To achieve this Enfield Pension Fund will ensure that risk management is integral to the governance and management of the Fund at both strategic and operational levels. The aim is to integrate risk awareness and management into both the processes and the culture of Enfield Pension Fund to help ensure that the Fund's objectives are met. This policy will be subject to annual review.

## 6. Risk Management Objectives

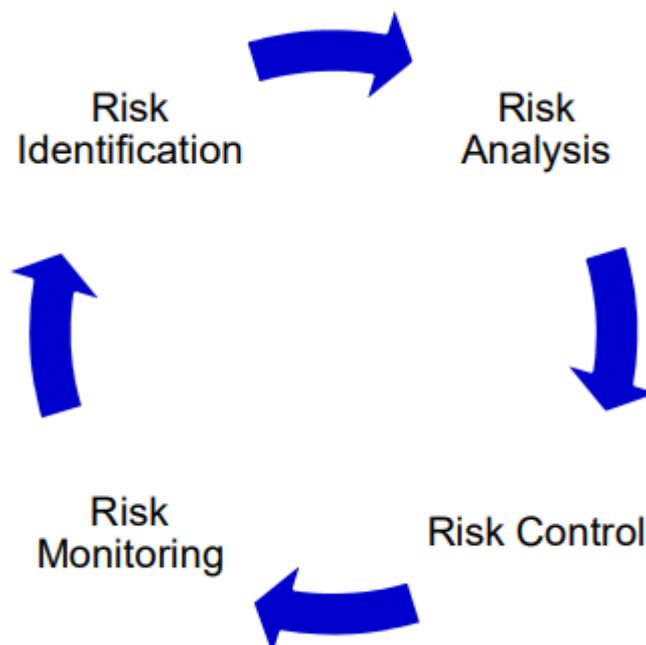
One of the Fund's key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

How this is achieved will vary depending on the type of risk and the activity involved. In relation to pension fund administration, the objective is to eliminate risk as far as possible; whereas the objective is to balance risk and return in relation to pension fund investment.

## 7. Risk Management Strategy

The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



### a) Risk Identification

The Fund’s risk identification process is a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Enfield Pension Fund Officers and the Advisers;
- performance measurement against agreed objectives;
- monitoring against the Fund's business plan;
- findings of internal and external audit and other adviser reports;
- feedback from the local Pension Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

### b) Risk Analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Likelihood of risk occurring	Very High (5)	5	10	15	20	25
	Significant / High (4)	4	8	12	16	20
	Medium (3)	3	6	9	12	15
	Low (2)	2	4	6	8	10
	Very Low (1)	1	2	3	4	5
	<i>Potential Financial Impact</i>	1 Insignificant/ Small £50k	2 Minor/Small >£50k to <£500k	3 Moderate/ Medium £500k-£10m	4 Major/ Large £10m-£50m	5 Catastrophic/ Very Large Over £50m
<i>Potential Reputation Impact</i>	Minor complaint	No media interest	One off local media interest	Adverse national media or sustained local interest	Ministerial intervention and or public inquiry	
<b>Potential impact (financial or reputation) if risk occurred</b>						

### c) Risk control

The Head of Pension Investments and the Head of Pension Administration will determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reduce the severity of the consequences should it occur. Before any such action can proceed, it may require Pensions Policy and Investment Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

(The Fund's existing controls can be found in appendix A to this paper)

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary the Fund's business plan will be update in relation to any agreed action as a result of an identified risk.

#### **d) Risk monitoring**

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Enfield Pension Fund and its Advisors. In monitoring risk management activity, the Fund will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

## **8. Reporting**

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Enfield Pensions Policy and Investment Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix);
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report;

- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion; and
- a summary of any changes to the previously agreed actions.

## 9. Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Policy and Investment Committee members, with the assistance of the Enfield Pension Fund Officers and Advisers, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Policy and Investment Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately



<b>Appendix A – Key Internal Control Measures</b>		
<b>Measures</b>	<b>Control Objective</b>	<b>Description of Control Procedures</b>
Authorising and processing transactions	Benefits payable are calculated in accordance with the Regulations and are paid on a timely basis	<ul style="list-style-type: none"> <li>Fully tested and regularly audited administration system for automated calculations. Checking of calculations and other processes is carried out.</li> <li>Procedures to ensure appropriate authority in place prior to processing payments.</li> </ul>
Maintaining financial and other records	Member records are up-to-date and accurate	<ul style="list-style-type: none"> <li>Annual and monthly reconciliation of information supplied by employers and administration records. Reconciliation of member movements</li> <li>Pensioner existence checks carried out every 2 to 3 years</li> <li>Members provided with annual benefit statements and asked to confirm if any details are incorrect</li> </ul>
	All cash flows and transactions are recorded in the correct period	<ul style="list-style-type: none"> <li>Accounting journals are automatically created as part of the workflow system.</li> <li>Regular bank reconciliations and cash flow forecasting are carried out</li> <li>The administration records and treasury/accounting records are regularly reconciled</li> </ul>
Safeguarding assets	Member, employer and Fund information is appropriately stored to ensure security and protection from unauthorised access.	<ul style="list-style-type: none"> <li>Password security in place and enforced</li> <li>Access to member and Fund data restricted to authorised personnel</li> <li>Member correspondence scanned and stored in secure systems</li> </ul>
	Cash is safeguarded and payments are suitably authorised and controlled	<ul style="list-style-type: none"> <li>Separate bank account maintained for the Fund</li> <li>Access controlled and authentication required. Cash movements recorded daily</li> <li>Regular bank reconciliations carried out and pensioner payroll reconciled each pay period</li> <li>LONDON BOROUGH OF ENFIELD PENSION FUND RISK MANAGEMENT POLICY 10</li> <li>Pensioner existence checks are carried out every 2 to 3 years, annually if overseas and all pensioners paid only by BACs.</li> </ul>
	Investment purchases and sales are correctly recorded and valuations are correct.	<ul style="list-style-type: none"> <li>Regular reconciliation of information provided by fund managers and custodian and Fund's records</li> <li>Assets held separately from LB Enfield by Custodian.</li> <li>Only authorised individuals, within specified signing limits can instruct / disinvest funds.</li> <li>All investment/disinvestment instructions are drafted by investment managers and advice</li> </ul>

		taken from Fund's investment advisers prior to authorisation and action
	Investment Performance is monitored. Investments are only placed with legitimate investment managers	<ul style="list-style-type: none"> <li>• Monthly investment monitoring by officers</li> <li>• Quarterly investment performance monitoring by PPIC</li> <li>• New investments to be taken from investment advisors buy list</li> <li>• Fund Managers to go through interview before investments placed to determine suitability</li> <li>• Enhanced viability checks</li> </ul>
Monitoring compliance	Contributions are received in accordance with the Regulations and rate and adjustments certificate	<ul style="list-style-type: none"> <li>• Payment dates monitored against expected / due dates and late payments notified</li> <li>• Employer contributions reconciled annually against Rates and Adjustments Certificate</li> <li>• Member contributions regularly reconciled against pay data received</li> <li>• Take up of the 50/50 option monitored and compared to contributions received</li> <li>• Rates and Adjustments Certificate updated as required when exit valuations carried out</li> </ul>
	Outsourced activities are properly managed and monitored	<ul style="list-style-type: none"> <li>• Monthly report provided by pension administration team or third party administrator, including a report on performance against the SLA.</li> <li>• Monthly meetings between pension administration team, or third party administrator and Enfield Council officers and quarterly reporting to Pensions Policy and Investment Committee.</li> <li>• All suppliers subject to regular review as part of tender and appointment process.</li> <li>• Annual monitoring of suppliers at Pensions Policy and Investment Committee.</li> </ul>
Reporting to stakeholders	Reports to members and employers are accurate, complete and within required timescales Annual reports and accounts are prepared in accordance with regulations and guidance Regulatory reports are made if needed	<ul style="list-style-type: none"> <li>• Detailed planning of annual benefit statement exercise and testing carried out in advance</li> <li>• Timetable agreed for production of annual report and accounts, in consultation with auditors. Analytical reviews carried out regularly during the year.</li> <li>• Policies in place to ensure all staff aware of regulatory requirements relating to whistleblowing, money laundering and bribery</li> <li>• Reports to regulatory authorities such as SAB and DCLG provided in a timely manner.</li> </ul>
Information technology	Access is restricted to authorised individuals and tightly controlled	<ul style="list-style-type: none"> <li>• Access to Council offices and IT systems restricted to authorised individuals.</li> <li>• Password security protocols in place and enforced</li> <li>• Any changes to user details or access rights require authorisation</li> </ul>

	Appropriate measures are implemented to counter the threat from malicious electronic attach	<ul style="list-style-type: none"> <li>• Antivirus software used and updated regularly and firewalls in place</li> <li>• IT security reviews carried out regularly by external experts</li> <li>• Filters in place to manage email spam and viruses. Protocols in place to block certain emails (size or content)</li> </ul>
	IT processing is authorised appropriately and exceptions identified and resolved in a timely manner	<ul style="list-style-type: none"> <li>• All IT processes documented and monitored</li> <li>• Changes to systems can only be made by authorised staff</li> </ul>
	Data transmission is complete, accurate, timely and secure	<ul style="list-style-type: none"> <li>• Secure file transfer protocols available for transmitting data externally</li> <li>• Sensitive date transmitted via encrypted or password protected email</li> <li>• All staff trained on data security protocols</li> </ul>
	Measures are in place to ensure continuity Measures are in place to ensure continuity	<ul style="list-style-type: none"> <li>• Data and systems backed up regularly, retained off-site and regularly tested for recoverability</li> <li>• Business continuity arrangements in place and regularly tested</li> </ul>
	Physical IT equipment maintained in a controlled environment	<ul style="list-style-type: none"> <li>• IT infrastructure rooms protected against fire, power failure and unauthorised access</li> <li>• Offset data centre has appropriate security measures in place</li> <li>• IT asset register maintained</li> <li>• Laptops and mobile devices encrypted or password protected</li> </ul>
Maintaining and developing systems hardware and software	Development and implementation of new systems, applications and software or changes to existing systems are authorised, tested and approved	<ul style="list-style-type: none"> <li>• Project controls in place prior to agreeing system update</li> <li>• Test administration system environment used for developing system updates</li> <li>• Appropriate authorisation required before updates are made live after functionality and user acceptance testing</li> </ul>
	Data migration or modification tested and reconciled back to data source	<ul style="list-style-type: none"> <li>• Change management procedures in pace for any data migration or modification</li> <li>• Scheme data reconciliations carried out as part of process</li> </ul>

Recovery from processing interruptions	Data and systems are regularly backed up, retained offsite and regularly tested for recoverability	<ul style="list-style-type: none"> <li>• Servers are replicated to an offsite data centre or backed up to tapes daily and taken to an offsite data storage facility.</li> <li>• Recoverability testing is undertaken on a regular basis</li> </ul>
	IT hardware and software issues monitored and resolved in a timely manner	<ul style="list-style-type: none"> <li>• Group IT Service Desk facility to log all incidents with prioritisation</li> <li>• Service is monitored against Service Level Agreements</li> </ul>
Appropriate governance	The Fund is managed with appropriate direction and oversight by the Pensions Policy and Investment Committee	<ul style="list-style-type: none"> <li>• Business plan in place and updates provided to each Pensions Policy and Investment Committee</li> <li>• All key strategies and policies in place and regularly reviewed by Pensions Policy and Investment Committee</li> <li>• Update reports to each Pensions Policy and Investment Committee highlighting progress against key objectives</li> <li>• Risk management policy in place and regular updates to Pensions Policy and Investment Committee</li> <li>• Local Pension Board in place and providing assistance with compliance</li> </ul>

