

Appendix 1 - Devon Pension Fund Risk Register

| Risk no. | Description of Risk and Potential Impact | Inherent Risk | | | Mitigating Controls | Current Risk | | | Additional Plans | Responsibility | Timescale |
|--------------------------------|--|---------------|------------|----------------|--|--------------|------------|----------------|---|--------------------------|-----------|
| | | Impact | Likelihood | Combined Score | | Impact | Likelihood | Combined Score | | | |
| Governance Arrangements | | | | | | | | | | | |
| G1 | <p>The Administering Authority fails to have appropriate governance arrangements, and fails to properly implement the new requirement for a Pension Board, resulting in:</p> <ul style="list-style-type: none"> • Non-compliance with legislation and/or best practice. • Inability to determine policy, make effective decisions and/or deliver service. • Risk to reputation. | 4 | 2 | 8 | <ul style="list-style-type: none"> • DCC has produced a Governance Policy and Compliance Statement, as required by regulation 31 of the LGPS Regulations 2008. • DCC has appointed an Investment and Pension Fund Committee to discharge the duties of the Council as Administering Authority of the Pension Fund. • The Committee review and approve the annual statement of accounts of the Devon Pension Fund, consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council. • The Governance Policy and Compliance Statement is reviewed and updated regularly and scheme employers are consulted to ensure that the policy remains appropriate. • The Statement is published on the Devon Pensions website: http://www.peninsulapensions.org.uk/wp-content/uploads/2013/09/Devon-Pension-Fund-Governance-Policy.pdf • Pension fund stakeholders are made aware of the Statement. • Constitution of Pension Board agreed by the Investment and Pension Fund Committee November 2014. • Terms of Reference for the Pension Board approved by Full Council in February 2015. • Revised Governance Policy, incorporating the new requirements, was approved by the Investment and Pension Fund Committee in February 2015. | 4 | 1 | 4 | <ul style="list-style-type: none"> • Appointments to the Board will be made in April 2015. • Training day and first meeting of the Board to be arranged for early 2015. | Mark Gayler / Dan Harris | Apr-2015 |

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| G2 | <p>The Investment and Pension Fund Committee are unable to fulfil their responsibilities effectively, resulting in:</p> <ul style="list-style-type: none"> • Non-compliance with legislation and/or best practice. • Inability to determine policy, make effective decisions and/or deliver service. • Risk to reputation. | 3 | 3 | 9 | <ul style="list-style-type: none"> • The Committee has adopted the CIPFA Code of Practice on Knowledge and Skills, and regular training is provided to ensure that members have the level of understanding required. • An Annual Training Plan has been agreed for 2014/15. • A training and induction programme is available for new Committee Members. • The Fund subscribes to relevant bodies (e.g. CIPFA, LAPFF, NAPF) and sends representatives to major conferences. • DCC organises at least two training days per year for Investment and Pension Fund Committee members, including an annual shared training day with Cornwall Council. • Committee members are made aware of and adhere to the Governance Compliance Statement, and are encouraged to identify training requirements. | 3 | 2 | 6 | The 2015/16 training plan will be taken to the June Committee meeting, and the first meeting of the Pension Board. | Mark Gayler / Dan Harris | Jul-2015 |
| Funding and Investments | | | | | | | | | | | |
| F1 | <p>The Committee Members and Investment Officers make inappropriate decisions as a result of insufficient knowledge of financial markets and inadequate investment and actuarial advice received, resulting in:</p> <ul style="list-style-type: none"> • Poor Fund performance/financial loss. • Increased employer contribution costs. | 4 | 3 | 12 | <ul style="list-style-type: none"> • The Investment Strategy is set in accordance with LGPS investment regulations. • The Investment Strategy is reviewed, approved and documented by the Investment and Pension Fund Committee. • The Investment Strategy takes into account the Fund's liabilities. • DCC employ an external investment advisor who provides specialist guidance to the Investment and Pension Fund Committee regarding the investment strategy. • An Annual Training Plan has been agreed for 2014/15. Training programmes are available for Committee Members and Investment Staff. • Members and Officers are encouraged to challenge advice and guidance received when necessary. | 4 | 2 | 8 | The 2015/16 training plan will be taken to the June Committee meeting, and the first meeting of the Pension Board. | Mark Gayler | Jul-2015 |

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| F2 | <p>The Pension Fund has insufficient assets to meet its long term liabilities.</p> <p>The Pension Fund's investment strategy and /or Fund Managers fail to produce the required returns, or organisational changes / manager departures at a Fund Manager damage performance, resulting in:</p> <ul style="list-style-type: none"> • Financial loss. • Insufficient funds available to meet future obligations. | 5 | 3 | 15 | <ul style="list-style-type: none"> • Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this. • The 2013 actuarial valuation includes provision for the fund to achieve full funding over 25 years. • The investment strategy is reviewed annually by the Pension Fund Committee with advice from the External Investment Advisor to determine whether any action needs to be taken to amend the fund's asset allocation strategy. • The Funds investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. • Fund-specific benchmarks and targets are set. • Fund assets are kept under regular review as part of the Fund's performance management framework. • Fund managers are thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and performance objectives, and this is reported to Committee. Appropriate action may be taken if it is considered that an Investment Manager is underperforming. • The depth of expertise in the fund managers team will be assessed as part of the appointment process. • Performance targets are agreed by the Investment and Pension Fund Committee and are based upon recommendations provided by the DCC in-house Investment Team and our external investment advisor. • The Investment and Pension Fund Committee have the power to terminate a fund manager's contract if it is deemed that the manager has not performed as expected, or there are concerns about future performance due to organisational change / manager departures. | 5 | 2 | 10 | An asset-liability study may be commissioned if there is evidence of a clear shift in the balance between assets and liabilities (e.g. due to changes in membership structure or benefit rules). | | |

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| F3 | The fund is exposed to unnecessary risks and avoidable costs due to poorly structured investment arrangements, resulting in: <ul style="list-style-type: none"> Financial loss. | 5 | 2 | 10 | <p>The Fund attempts to ensure the achievement of best value and minimise exposure to risk via the following:</p> <ul style="list-style-type: none"> The Funds investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets. IMA disclosure tables are reviewed to ensure best execution by managers. Investment managers are asked to provide invoices for fees, wherever possible. Specialist services (e.g. transitions, currency transfers) are considered where appropriate in order to reduce costs. Banking and custodian arrangements are reviewed and re-tendered when appropriate. | 4 | 1 | 4 | | | |
| F4 | Collapse of a fund manager or negligence, fraud or wilful default committed by a fund manager, resulting in: <ul style="list-style-type: none"> Financial loss. | 4 | 2 | 8 | <ul style="list-style-type: none"> The Fund considers the financial stability of managers during the appointment process and the situation is kept under review. DCC use a global custodian service to ensure that there exists a separation of investment management arrangements from custody of assets. Legal requirements are in place for fund managers and are set out in the investment management agreements. Fund managers are required to be fully compliant with FCA, PRA and other regulatory requirements. The risk that a fund manager cannot provide a service during windup is mitigated by the availability of a transition management service by the Fund's Custodian Bank, Northern Trust. | 3 | 2 | 6 | | | |

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| F5 | Market crash leading to a failure to reduce the deficit. <ul style="list-style-type: none"> Financial loss. Increased employer contribution costs. | 5 | 3 | 15 | <ul style="list-style-type: none"> The fund is well diversified and consists of a wide range of asset classes which aims to mitigate the impact of poor performance from an individual market segment. Investment performance reporting and monitoring arrangements exist which provide the committee and investment officers with the flexibility to rebalance the portfolio in a timely manner. The long term nature of the liabilities provides some mitigation, in that markets tend to bounce back after crashes, such that the impact is significantly reduced. | 4 | 3 | 12 | | | |
| F6 | Pay and price inflation are higher than anticipated. <ul style="list-style-type: none"> An increase in liabilities which exceeds the previous valuation estimate. | 4 | 3 | 12 | <ul style="list-style-type: none"> The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees. The Fund has recently made new investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases. The Committee has received training on understanding liabilities and potential approaches to Liability Driven Investment. | 3 | 3 | 9 | Possible consideration of a Liability Driven Investment strategy. | Mark Gayler | Possible Committee report during 2015. |
| F7 | Increase in number of early retirements due to public service cuts and/or ill health leading to pension liabilities increasing. <ul style="list-style-type: none"> An increase in liabilities which exceeds the previous valuation estimate. | 3 | 3 | 9 | <ul style="list-style-type: none"> Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored. | 2 | 2 | 4 | | | |
| F8 | The average life expectancy of pensioners is greater than assumed in actuarial assumptions. <ul style="list-style-type: none"> An increase in liabilities which exceeds the previous valuation estimate. | 4 | 3 | 12 | <ul style="list-style-type: none"> Life expectancy assumptions are reviewed at each valuation. Mortality assumptions include some allowance for future increases in life expectancy. | 3 | 2 | 6 | | | |

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| F9 | <p>Scheme employers' contributions to the Fund are not received, processed and recorded completely and accurately</p> <ul style="list-style-type: none"> Increased costs across all the remaining scheme employers | 3 | 3 | 9 | <ul style="list-style-type: none"> The team has procedures in place to monitor the receipt of contributions to the fund. The team communicates regularly with scheme employers to ensure that contributions are made in a timely manner and are recorded accurately. Details of any outstanding and overdue contributions are recorded and appropriate action is taken in order to recover payments. | 3 | 1 | 3 | | | |
| F10 | <p>An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value.</p> <ul style="list-style-type: none"> Departing employer not fully meeting its liabilities which leads to increased costs across the remaining scheme employers. | 3 | 3 | 9 | <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> Vetting prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or guarantee is put into place if required. Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. The actuarial valuation attempts to balance recovery period with risk of withdrawal. If necessary, appropriate legal action will be taken. An Employer Covenant Risk Assessment has been undertaken by the Fund Actuary, Barnett Waddingham | 2 | 2 | 4 | | | |
| F11 | <p>Sept 2014 Committee decision to terminate the Sarasin mandate, transition the assets temporarily to SSgA All World passive fund, and procure a Smart Beta mandate:</p> <ul style="list-style-type: none"> Risk of significant costs involved in transition costing Fund performance. Risk of opportunity cost/market impact reducing value and costing Fund performance. Risk of JLT search fee for Smart Beta procurement being passed onto the Fund. | 2 | 4 | 8 | <ul style="list-style-type: none"> Northern Trust employed as transition manager as variation to Custody contract, with significant expertise in minimising the risk involved in transition. | 2 | 3 | 6 | | | |

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| Custody | | | | | | | | | | | |
| Cu1 | Failure of custodian leading to losses which results in a failure to reduce the deficit and potential adverse media interest. • Financial loss. | 4 | 2 | 8 | <ul style="list-style-type: none"> The custodian contract is subject to regular review and periodic re-tendering. A new contract has been awarded to Northern Trust with a start date of 1 September. The procurement process included an assessment of their financial standing. The custodian must adhere to FCA and PRA financial regulations. Fund assets are protected in the event of insolvency of the custodian | 3 | 2 | 6 | | | |
| Cu2 | Appointment of Northern Trust as the Fund Custodian and the transition from JP Morgan: • Failure to conduct a seamless transition could result in significant disruption to the settlement and accounting services and the Fund's ability to monitor and account for Fund Managers' transactions | 4 | 3 | 12 | <ul style="list-style-type: none"> Clear project plan drawn up by Northern Trust in conjunction with DCC Investment Team. Significant resource allocated to transition by Northern Trust, and senior member of DCC Investment Team allocated the task of ensuring effective task management. Mid year transition date of 1st September allows time for accounting processes to be embedded to ensure that there is minimal risk to production of 2014/15 Statement of Accounts. | 4 | 2 | 8 | | | |
| Communication | | | | | | | | | | | |
| Cm1 | Insufficient communication and engagement with the Pension Fund Stakeholders. • Non-compliance with legislation and/or best practice. • Inability to determine policy, make effective decisions and/or deliver service. • Reputation risk. | 3 | 3 | 9 | <ul style="list-style-type: none"> A communications strategy is in place. The Devon Investment Services and Peninsula Pensions websites are kept up to date. Fund Performance is reported to the Investment & Pension Fund Committee on a regular basis. Meetings are held regularly with the Fund's Employing Authorities. Benefit illustrations are sent annually to contributing and deferred Fund members. The contact list for employers is updated regularly. Annual forums are held for employers and Trade Unions. The annual report and accounts are published on the Peninsula Pensions website. | 3 | 2 | 6 | | | |

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| Accounting | | | | | | | | | | | |
| A1 | <p>Failure to comply with pension fund accounting regulations.</p> <ul style="list-style-type: none"> • Risk of the accounts being qualified by the auditors. | 3 | 3 | 9 | <ul style="list-style-type: none"> • Staff are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. • Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the DCC Financial Regulations. • Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. • Internal Audits are carried out on an annual basis. • External Audit review the Pension Fund's accounts annually. | 3 | 2 | 6 | | | |
| Data Protection | | | | | | | | | | | |
| D1 | <p>The Pension Fund systems and data may not be secure and appropriately maintained.</p> <ul style="list-style-type: none"> • Loss of sensitive data. • Reputation risk. • Financial loss arising from legal action. | 3 | 2 | 6 | <ul style="list-style-type: none"> • It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's data protection policy. | 3 | 1 | 3 | | | |

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| Internal | | | | | | | | | | | |
| 11 | <p>Concentration of knowledge in a small number of officers and risk of departure of key staff.</p> <ul style="list-style-type: none"> The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation. | 4 | 3 | 12 | <ul style="list-style-type: none"> The Deputy Investment Manager is able to cover in the absence of the Assistant County Treasurer. Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process. A procedure manual is in place which sets out work instructions for the majority of crucial tasks undertaken. | 4 | 2 | 8 | <ul style="list-style-type: none"> The Devon Investment Services procedure manual is currently in the process of being updated. This will include work instructions for all pension fund investment and treasury management tasks. Ensure the review of CIPFA's knowledge and skills framework relating to officers results in key outcomes being delivered. A formal training record for all staff will be implemented in the near future. | Dan Harris | 2015 |
| 12 | <p>Failure of in-house treasury management practices leading to fraud, corruption or error.</p> <ul style="list-style-type: none"> Risk of financial loss & damage to reputation. | 3 | 3 | 9 | <ul style="list-style-type: none"> Counterparty transactions are authorised by senior staff outside of the investment team. All staff are covered by fidelity insurance up to £15 million Sufficient members in the team to cover absence and leave - a weekly planner is produced in order to review cover requirements. Appropriate separation of duties exists. Treasury Management Practices are reviewed and updated regularly. Up to date financial regulations and practices. | 3 | 2 | 6 | | | |

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| Peninsula Pensions | | | | | | | | | | | |
| P1 | <p>Pension benefits are not paid.</p> <ul style="list-style-type: none"> • Risk of financial loss arising from compensation claims • Damage to reputation. | 4 | 2 | 8 | <ul style="list-style-type: none"> • The payroll system is set up to pay pensioners monthly. • Disaster recovery plan in place with Heywoods which will restore data within 7 days in the event of system failure. | 4 | 1 | 4 | Payroll manual is being revised and updated following the introduction of RTI (Real Time Information) and new administration systems. | Charlotte Thompson | 2015/16 |
| P2 | <p>Failure of scheme membership data and pension benefit calculation processes leading to fraud, corruption or error.</p> <ul style="list-style-type: none"> • Unauthorised payments under the Finance Act 2004. • Risk of financial loss and damage to reputation. | 3 | 2 | 6 | <ul style="list-style-type: none"> • Information and instructions are only accepted from authorised sources. • Employers and scheme members are required to review and confirm membership records annually. • Benefit calculations are checked by senior colleagues and are subject to independent authorisation. • All transactions comply with DCC financial regulations and are subject to independent authorisation. • All staff are covered by fidelity insurance up to £15 million. • Members approaching 75 are separately identified monthly. | 3 | 1 | 3 | | | |
| P3 | <p>Failure of employing authority to provide timely and accurate member data resulting in delays or errors with benefit payments.</p> <ul style="list-style-type: none"> • Risk of financial loss and damage to reputation. | 3 | 3 | 9 | <ul style="list-style-type: none"> • Administration Strategy in place since April 2015, employer duties clearly identified. Ability to fine employers is provided for in strategy and LGPS regulations. • Employing authorities are contacted for outstanding information when it is identified that information is missing or contains errors. | 3 | 2 | 6 | | | |
| P4 | <p>Non-compliance with legislation and failure to correctly implement new legislation and regulations, resulting in:</p> <ul style="list-style-type: none"> • Incorrect payments being made. • Risk of financial loss and damage to reputation. | 3 | 3 | 9 | <ul style="list-style-type: none"> • LGA/External training. • Project work approach to implementation of legislative changes. • In house training for all staff. | 2 | 2 | 4 | | | |

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| P5 | Pension benefits continue to be paid to deceased pensioners. <ul style="list-style-type: none"> • Risk of financial loss and damage to reputation. | 2 | 3 | 6 | <ul style="list-style-type: none"> • All pensioners are contacted annually. • Pension suspended if post is returned • Pensioners are incorporated into National Fraud Initiative. • Further targeted checks are conducted with credit reference agencies as appropriate. • Monthly mortality screening is undertaken and any positive matches are ceased immediately | 2 | 2 | 4 | <ul style="list-style-type: none"> • Tell us once service is being rolled out to LGPS. Project dates to be confirmed • Mortality screening does not cover overseas pensioners. Western Union pensioner existence service will be undertaken bi annually. First exercise due summer 2015 | Charlotte Thompson | 2015 |
| P6 | System failure. <ul style="list-style-type: none"> • Loss of sensitive data. • Reputation risk. • Financial loss arising from legal action. | 5 | 2 | 10 | <ul style="list-style-type: none"> • The system is backed-up daily. System is hosted by Heywoods • A full disaster recovery plan is in place and tested annually. | 5 | 1 | 5 | | | |
| P7 | Employing authorities not fulfilling their responsibilities e.g. not supplying us with correct employee data or not supplying it in a timely manner <ul style="list-style-type: none"> • Incorrect benefit calculations • Delays while we request missing information | 3 | 2 | 6 | <ul style="list-style-type: none"> • Admin strategy details employer responsibilities and timescales • Advice and consultancy provided. • Yearly checks on data to highlight gaps • Employer administration meetings held twice a year • Quarterly e-zine with administration updates, plus special editions when required • Guidance available on website | 3 | 1 | 3 | Individual employer meetings which will include review of employer performance | Charlotte Thompson | commencing 2015 |
| P8 | Failure to comply with disclosure regulations e.g. the requirement to issue information within a certain timescale after a request/event <ul style="list-style-type: none"> • Complaints • Fines | 3 | 2 | 6 | <ul style="list-style-type: none"> • Robust workflow management system in place. | 3 | 1 | 3 | | | |