



Professionalism and Governance

Governance Assignment 2 Notes

*(Part 1 – Pensions Risk Management)
Recommended Time: 2 hours)*

1. Case Study:

You are the pension manager for a large mature pension scheme. You have been asked by the Trustee Board to assess the compliance of the scheme against the Pension Regulator's Code of Practice on Internal Controls.

The objectives of performing the compliance review are linked to:-

- a) Safeguarding the scheme assets
- b) Maintaining suitable levels of funding
- c) Ensuring the payment of adequate contributions
- d) Ensuring that the correct level of benefit is being paid to the legitimate members, and
- e) Making sure the scheme operates and is managed in accordance with law and the scheme's trust documentation.

Your report to the Trustee Board, should detail:-

- **3 risks that could impact each of the above objectives (note these could be operational or financial).**
- **at least 3 methods of mitigating the previously identified risks, and any control mechanism and action plan that you would deploy to help you in this task**

The report should take the form of a risk register and each risk should be prioritised accordingly.

The report should take the format of a risk register and should therefore include: -

- The type of risk and how it applies to the scheme i.e. the issue
- The corrective action or plan to mitigate the risk
- A timeline as to when the issue will be resolved. If it is not capable of resolution i.e. funding. Then the report should suggest the appropriate mechanism to monitor/control the risk.
- Each risk should be prioritised ideally RAG'd or given a numeric priority number. Students need to assess and prioritise the list of risks held on the risk register you need to establish what level of risk is acceptable to the scheme. It should be noted that risk cannot be mitigated completely and accepting a degree of risk is a valid outcome from the risk-management process.
- The priority should be appropriate to the risk in question or being detailed, for example, the likelihood of a sponsoring employer of large mature scheme not being able to meet its liabilities, is due to business difficulties is reasonably high. Whereas, the fact that the administration provider cannot identify all members with an EPB benefit is very low risk. Setting the level of acceptable risk will provide the threshold above which you may need to establish internal controls when you come to assess the risks in the next stage of the process. It will also provide a measure for establishing the success of the internal controls you put in place to see whether the risk has been sufficiently mitigated.

The content of the report should include commentary against each type of risk, the detail of which can again be found in the regulators code of practice.

It may be helpful to consider the acceptable level of risk in terms of its impact on:



- the security of members' benefits;
- disruption to the smooth running of the scheme; and
- direct financial cost to the scheme.

At this stage the student will need to establish who 'owns' the risks you have identified. The owner of the risk is the person with primary responsibility for managing it. The ownership of each risk will need to be communicated to the relevant person. The next step is to record the agreed success criteria and risk owners on a risk register.

Marks awarded to student for degree of articulation i.e. if you know nothing about the pensions environment could you understand the risks being detailed and how those risks could be mitigated.

(The relevant sections of the Study Manual are Part 1, Chapters 2.1.1 and 2.2.)

60 marks