



Finnnet

Building a Better Tomorrow, Today



ENTERPRISE RISK MANAGEMENT & PENSION AUDIT PROGRAMME

DATE: 10TH – 13TH MARCH, 2026

GOVERNANCE . TRAINING . EMPLOYEE BENEFITS . TECHNOLOGY

FACILITATOR



- **Ph.D. at the University of Nairobi (thesis stage)**
- **Masters in Business Administration (Finance Option)**
- **Bachelor of Commerce (1st Class honors (Finance Option)**
- **Certified Public Accountant of Kenya(CPAK)**
- **Certified Information System Auditor (CISA)**
- **Certified Fraud Examiner (CFE)**
- **Member -National Quality Institute (NQI).**
- **Strategic Leadership Development Programme (SLDP).**
- **Trustee- KNBS Pension Scheme**
 - **Member – Institute of Internal Auditors**
 - **Lead ISO Auditor**
 - **Over 20yrs in Providing Audit and Assurance services**

RISK, IDENTIFICATION, ASSESSMENT, REPORTING, MITIGATION AND CONTROLS OF A PENSION SCHEME

1. Overview of Risk Management in a Pension Scheme

Risk management in a pension scheme is a systematic process of identifying, assessing, monitoring, and controlling risks that could affect the scheme's ability to meet its obligations to members.

Objectives

- Protect members' retirement benefits
- Ensure financial sustainability
- Maintain regulatory compliance
- Enhance governance and transparency
- Support sound investment decisions

Key Stakeholders

- Board of Trustees
- Scheme Administrator
- Fund Manager
- Custodian
- Actuary
- Sponsor (Employer)
- Members
- Regulators

2. RISK IDENTIFICATION

Risk identification is the **process of determining potential events that could negatively affect the pension scheme's operations, assets, liabilities, or reputation.**

Methods of Risk Identification

- Risk workshops with trustees
- Review of historical incidents
- Internal and external audits
- Regulatory compliance reviews
- Scenario analysis
- Stakeholder consultations
- Environmental scanning (economic, legal, technological)

1. Investment Risk

Risk that investments perform below expectations.

Examples:

- Poor asset allocation
- Market volatility
- Concentration risk
- Interest rate fluctuations

2. Liquidity Risk

Risk that the scheme cannot meet benefit payments when due.

Examples:

- High pension payouts
- Illiquid investments (real estate/private equity)

3. Operational Risk

Risk arising from failed internal processes or systems.

Examples:

- Data errors
- Fraud
- System failures

4. Governance Risk

Risk due to weak oversight or poor decision-making.

Examples:

- Trustee incompetence
- Conflict of interest
- Poor strategic direction

5. Compliance / Regulatory Risk

Risk of violating pension regulations.

Examples:

- Non-compliance with investment limits
- Failure to submit regulatory reports

6. Actuarial Risk

Risk arising from inaccurate actuarial assumptions.

Examples:

- Longevity risk
- Incorrect mortality assumptions
- Salary growth assumptions

7. Sponsor Risk

Risk that the employer cannot meet its obligations.

Examples:

- Employer insolvency
- Failure to remit contributions

8. Cybersecurity / IT Risk

Risk of data breaches or system attacks.

Examples:

- Hacking of member data
- Loss of records

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9. Reputational Risk

Risk that negative publicity damages trust in the scheme.

Examples:

- Fraud scandals
- Mismanagement

Risk Assessment Criteria

LIKELIHOOD SCALE

Rating	Description
Rare	Unlikely to occur
Unlikely	Possible but not frequent
Possible	Could occur sometimes
Likely	Occurs regularly
Almost Certain	Expected frequently

IMPACT SCALE

Rating	Description
Insignificant	Minimal effect
Minor	Small financial or operational impact
Moderate	Noticeable financial loss
Major	Significant losses or disruption
Catastrophic	Threatens scheme sustainability

Risk Matrix (Example)

Impact / Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain
Catastrophic	Medium	High	Extreme	Extreme	Extreme
Major	Medium	Medium	High	Extreme	Extreme
Moderate	Low	Medium	High	High	Extreme
Minor	Low	Low	Medium	Medium	High
Insignificant	Low	Low	Low	Medium	Medium

4. RISK REPORTING

Risk reporting ensures **timely communication of risk exposures to trustees and stakeholders.**

Risk Reporting Structure

Level	Reporting Responsibility
Trustees	Oversight of risk management
Risk Committee	Monitoring and review
Scheme Administrator	Risk documentation
Fund Manager	Investment risk reporting
Internal Auditor	Independent assurance

1. Quarterly Risk Reports

- Key risk exposures
- Risk rating changes
- Mitigation progress

2. Investment Risk Reports

- Portfolio performance
- Asset allocation
- Market risks

3. Compliance Reports

- Regulatory compliance status

4. Incident Reports

- Fraud
- system failures
- breaches

- Risk description
- Root cause
- Impact
- Risk owner
- Current controls
- Residual risk level
- Action plan

Risk mitigation involves actions taken to reduce risk likelihood or impact.

Common Risk Treatment Options

1. Avoidance

- Avoid risky investments

2. Reduction

- Strengthen internal controls

3. Transfer

- Insurance coverage

4. Acceptance

- Accept low-level risks

EXAMPLES OF RISK MITIGATION IN PENSION SCHEMES

Risk	Mitigation
Poor investment returns	Diversified investment portfolio
Fraud	Segregation of duties
Data loss	System backups
Liquidity shortages	Maintain liquid assets
Employer default	Legal enforcement mechanisms

Controls ensure risks are minimized and processes operate effectively.

Types of Controls

Preventive Controls

Prevent risks from occurring.

Examples:

- Investment limits
- Authorization procedures

Detective Controls

Identify risks after they occur.

Examples:

- Internal audits
- Reconciliations

Corrective Controls

Correct problems once detected.

Examples:

- System recovery
- disciplinary actions

EXAMPLES OF PENSION SCHEME CONTROLS

Risk Area	Control Measures
Investment	Investment policy statement
Contributions	Monthly reconciliation
Benefits payment	Approval hierarchy
Data security	Access controls
Compliance	Regulatory reporting schedules

7. RISK REGISTER FOR PENSION SCHEME (EXAMPLE)

Risk	Root Cause	Impact	Likelihood	Controls	Mitigation
Poor investment returns	Weak asset allocation	Reduced pension growth	Possible	Investment committee	Diversification
Employer contribution default	Financial distress	Funding gap	Possible	Monitoring	Legal enforcement
Fraud	Weak internal controls	Financial loss	Unlikely	Segregation of duties	Internal audits
Data loss	System failure	Member disputes	Unlikely	Backup systems	Disaster recovery
Regulatory non-compliance	Poor monitoring	Penalties	Possible	Compliance checks	Training

8. MONITORING AND REVIEW

Continuous monitoring ensures risk controls remain effective.

Monitoring Activities

- Quarterly risk reviews
- Internal audits
- Compliance monitoring
- Investment performance analysis
- Actuarial valuation reviews

Key Risk Indicators (KRIs)

Examples:

- Funding ratio
- Investment return variance
- Contribution arrears
- Liquidity ratio
- Number of compliance breaches

9. ROLE OF TRUSTEES IN RISK MANAGEMENT

Trustees must ensure:

- Effective **risk governance**
- Clear **risk appetite**
- Adequate **internal controls**
- Regular **risk reporting**
- Compliance with regulatory requirements

Trustees act in the **best interest of members**.

Effective pension scheme risk management involves:

1. Risk Identification
2. Risk Assessment
3. Risk Reporting
4. Risk Mitigation
5. Internal Controls
6. Continuous Monitoring

This ensures the **pension scheme remains financially sustainable and capable of paying members' retirement benefits.**

THANK YOU

THANK YOU ANY
QUESTION?



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