

# Risk Register

As at 16 06 2020

## About this Risk Register

The following colour coding is used for the 31 residual risk scores:

- Red  $\geq 45$  (02 risks)
- Amber  $\geq 25$  but  $< 45$  (11 risks)
- Green  $< 25$  (18 risks)

Risk scores can range from 0 to 100 and are derived by multiplying an impact score by a probability score as follows:

**Impact** = 0 (none); 5 (minor); 15 (moderate); 20 (major); or 25 (severe).

**Probability** = 0 (no chance); 1 (25% likely to happen); 2 (50:50); 3 (75% likely); or 4 (certain to happen).

The far-right column, Residual Risk Score, includes upwards or downwards arrows if the score has changed since the previous Risk Register (as at 28 02 2020 in this case).

In the far-right column, Residual Risk Score, the scores in brackets below the current score indicate what the previous score was if the score has changed since the previous Risk Register.

The 31 risks logged in this register are in highest Residual Risk Score:

- Mismatch in asset returns and liability movements.
- Being reliant on LGPS Central Limited delivering its forecasted cost savings.
- Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.
- Failure to pool assets using LGPS Central Limited.
- Pandemic affecting the Fund's staff / the Fund's employers' Payroll or HR staff / staff at payroll providers who provide services to the Fund or its employers.
- Fair Deal consultation proposals being implemented.
- Failure to procure a pensions admin system for the future.
- Employers having insufficient skilled resources to supply our data requirements.
- Failure to appoint suitable investment managers and review their performance / markets / contracts.
- Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with the Fund's roles and responsibilities matrix.
- Cyber-attack leading to loss of personal data like bank account details.
- Failure to maintain the quality of our data.
- GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.
- Future change to LGPS regulations or other legislation, for example the LGPS cost cap, the SAB's governance working groups, or the 'Restricting exit payments in the public sector' / 'Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk' consultations.
- Being reliant on LGPS Central Limited's investment approach following transitioning of assets.
- The following key actuarial assumptions set at each actuarial valuation do not match our actual experience between actuarial valuations: the number of ill health retirements; that employer strain costs associated with early / redundancy / flexible retirements are covered by the payments collected from employers; pay / price inflation; and life expectancy.
- Failure of existing pension admin system to deliver the services contracted.
- Staff leaving or going on long term absence.
- Failure of business continuity planning.
- Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
- Liquidity / cash flow is not managed correctly.
- Failure to exercise proper stewardship of the Fund's assets.
- Fraud by staff.
- Failure of the actuary to deliver the services contracted.
- Failure of governance arrangements to match up to recommended best practice.
- Failure of custodian to deliver the services contracted.
- Not having an established and meaningful Business Plan / Pension Administration Strategy.
- Failure of investment adviser to deliver the services contracted.
- Fraud by scheme members.
- Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.
- Incorrect calculation of benefits through human error or delayed notification of a death.

WPF Risk Register 16 June 2020 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 12 (Chief Financial Officer)	Mismatch in asset returns and liability movements.	Exposure to risk or missing investment opportunities or increases in employer contributions.	25	3	75	The Fund regularly reviews its Investment Strategy Statement, has a diversified portfolio and implements a policy of extended recovery periods to smooth employer contributions. Qualified advisers including an independent investment adviser are contracted and set objectives that are reviewed regularly. Funding position and mortality / morbidity experience are reviewed regularly by the Pensions Committee. The Fund has equity protection arrangements in place up to Sep 2020 re which the FTSE part that represents a third of the arrangements has been unwound in response to COVID-19. Fund officers have liaised with all of the Fund's investment managers in response to the market volatility caused by COVID-19. New ideas are always encouraged by officers who also carry out peer group discussions. Monthly Investment Working Group meetings are held between the partner funds and LGPSC to explore new fund opportunities.	25	2	50
WPF 10 (Chief Financial Officer)	Being reliant on LGPS Central Limited delivering its forecasted cost savings.	Paying too much in fees / investment under-performance.	25	2	50	Whilst the Pension Investment Sub Committee and LGPS Central's Practitioners' Advisory Forum (PAF) monitor the costs of being a partner fund of LGPS Central Limited, there is little they can do about LGPSC admitting that any expected cost savings will not emerge as soon as anticipated. Whilst the Fund has not transferred many assets so far, there are fixed costs of being a partner fund.	25	2	50 (30)



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WPF 23 (Chief Financial Officer)	Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.	Increase in liabilities.	20	3	60	Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds) and in setting the term of deficit recovery periods during the actuarial valuation process. The aim is to keep employer contributions as stable and affordable as possible. During the 2019 actuarial valuation the Fund actively engaged with employers by issuing interim results, by offering 1:1s with the actuary and by asking employers to complete an employer contribution election form. At a Fund level employers have confirmed that the LGPS remains affordable, a situation that the Fund is monitoring in the light of COVID-19. The Fund has been able to offer some flexibility in exceptional circumstances: it has been agreed with a top 10 employer that owing to their financial pressures they can phase in increased payments, reflecting the Fund's policy of positive engagement with a view to strengthening employer covenants wherever possible. Contribution increases are phased over a three year period for most employers and allowances are provided for short term pay restraint where evidence is provided. The Fund monitors membership profiles and changes, ensures that employers are reminded of their responsibilities through sending reminders of employers responsibilities where this is appropriate and works with at risk employers. The Fund is currently undertaking the latest (2020) annual covenant review by analysing employers' financial metrics. The Fund introduced employer grouped investment strategies on 1 April 2020.	20	2	40

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WPF 11 (Chief Financial Officer)	Failure to pool assets using LGPS Central Limited.	Lack of compliance with Ministry of Housing Communities & Local Government (MHCLG) requirements.	25	3	75	The Fund is a working member and shareholder of the LGPSC. The pool went live from the 1st April 2018 and met the government's pooling timetable and to the required standard. It also complied with FCA regulations. Each pool member has an equal share in the pool and the first Shareholders meeting and central committee have taken place. There is a Practitioners Advisory Form (PAF) with the pool's investment managers that meets monthly. The pool has a number of work streams: investments; client reporting; finance; responsible investment; and governance. Formal transition procedures are in place. The Fund will take legal advice before not pooling its assets and monitors the willingness of the pool to invest in the sort of assets that could have a positive impact on the Fund's future funding levels. The first transfers of Fund assets (in emerging markets and corporate bonds) were undertaken in July 2019 / Feb 2020 and preparations are being made to transfer infrastructure in Dec 2020.	15	2	30 (40)
WPF 31 (HR & OD Service Commissioning Manager)	Pandemic affecting the Fund's staff / the Fund's employers' Payroll or HR staff / staff at payroll providers who provide services to the Fund or its employers.	Inability to deliver critical functions like paying deaths.	20	2	40	The Fund has proved that its staff can work from home to deliver a 'business as usual' service including the delivery of pensioner payroll successfully with the support of a small postal / scanning service at County Hall. It is not experiencing problems with suppliers / employers. It is continuing to be vigilant and to keep its priorities under review by monitoring its KPIs and the guidance from Public Health England / the LGA. In preparation for a possible wave two, it has developed amendments to its normal procedures that would cope with staff, data or systems being unavailable and specifically cope with increased volumes of deaths. We will continue to review capacity v resources and to liaise with other LGPS funds over their proposed ways forward.	15	2	30 (40)


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WPF 06 (Chief Financial Officer)	Fair Deal consultation proposals being implemented.	Increasing administrative complexity.	15	3	45	Government consultations are being delayed as the government focusses its efforts on COVID-19. When the regulations come out the Fund will develop measures to mitigate this risk. Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds), and the Fund will ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	15	2	30
WPF 19 (HR & OD Service Commissioning Manager)	Failure to procure a pensions admin system for the future.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	3	75	The hosting of Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood, the supplier of Altair, to deliver greater resilience. The Fund has signed up to the national LGPS framework for pension admin systems to reduce the costs and timeframe of this procurement, and the next step will be producing an implementation timeline.	15	2	30

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WPF 24 (HR & OD Service Commissioning Manager)	Employers having insufficient skilled resources to supply our data requirements.	Missing, incomplete and incorrect records on pensions administration system that undermines service delivery and causes difficulties in establishing correct benefits at individual level / liabilities at employer and whole of Fund level. Potential issues with The Pensions Regulator.	15	3	45	In the face of COVID-19 the Fund's employers are continuing to deliver on their responsibilities. The Fund updated the Pension Administration Strategy on 1 April 2020. It supports employers with monthly newsletters / its website / employer fora. Officers have developed a 'New to the LGPS?' employer workshop and an employer workshop on 'Form Completion' to follow up on the 'Pensions Development Pathway', employers 'How to' and the 'What the Fund expects from its employers' calendar. Officers are working on expanding this material by developing information for employers on IDRP and ill health retirements. Checking individual records at points of significant transaction is undertaken.	15	2	30

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WPF 08 (Chief Financial Officer)	Failure to appoint suitable investment managers and review their performance / markets / contracts.	Investment underperformance / regulatory non-compliance / paying too much in fees.	25	3	75	The Pension Investment Sub Committee has been introduced to deliver more effective decision making: its predecessor, the Pension Investment Advisory Panel, had to have its recommendations approved by the Pensions Committee. It monitors performance of the Fund's diverse range of investment managers, meeting with / placing managers on watch as appropriate. Fund officers carry out a subjective review and objective analysis of asset performance and take advice from the investment adviser, LGPS Central Limited / its partner Funds. Contract service is reviewed quarterly by the Pension Investment Sub Committee. The Finance Manager - Pensions reviews investment managers' internal control reports and reports any significant exceptions to the Chief Financial Officer. CMA objectives for the Fund's Investment Adviser were agreed at the 17 March Pensions Committee.	25	1	25
WPF 03 (Chief Financial Officer)	Failure of officers to maintain sufficient level of knowledge / competence or to act in accordance with the Fund's roles and responsibilities matrix.	Inability to carry out their duties.	25	3	75	Officers are appropriately qualified and participate in various scheme / industry groups / fora to keep up-to-date on pensions issues. They also review specialist publications. Officers have drafted a staff knowledge assessment to assist in developing its own workforce strategy as part of the Worcestershire County Council whole organisation redesign.	25	1	25



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WPF 28 (HR & OD Service Commissioning Manager)	Cyber attack leading to loss of personal data like bank account details.	Data Protection breach / fraud.	25	2	50	Whilst the Fund is constantly under attack, the Worcestershire County Council (WCC) infrastructure has proved robust, and we have obtained reassurance from Heywood following COVID-19. We use WCC's breach notification process and WCC's data policy, for example through the use of data encryption and password protection. Regular meetings are being set up with WCC IT Infrastructure. Systems are set up in line with data protection regulations. A complete address update is done regularly by employers. Mitigating processes include the Business Continuity Plan (BCP), data breach, addresses being checked by a dedicated checker and communication taking place with member / employer before a payment is made. All post office returns are investigated and followed up and nothing is sent out if new address is not found.	25	1	25
WPF 30 (HR & OD Service Commissioning Manager)	Failure to maintain the quality of our member data	Paying incorrect or no benefits / problems with the Pensions Regulator / reputational or financial loss.	25	2	50	Our annual GAD data quality review shows our data is up with other LGPS funds. We will be using individual reports and TPR checks on the quality of our data to target correcting those areas where our data is not of the highest quality.	25	1	25

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WPF 32 (HR & OD Service Commissioning Manager)	GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.	Claims from members, reputational damage or fines from the regulator.	25	1	25	We have drafted letters for communicating with members. We plan to upload data as a dry run for GMP rectification in September. This will size the resource requirement and determine the approach used for cases of over and under payments. For example, will it be necessary to claw back any overpayments (and if so at what level / using what approach) and what communications will be required to support this? We are investigating the taxation implications of underpayments / overpayments. The working assumption that we will write to affected members in June and implement the rectification in August has been put back due to HMRC delaying the provision of data extracts to the end of July. We are proposing a new rectification date of January 2021 (avoiding December and to give 2 clear months in the cases of reduction).	25	1	25 (15) 
WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example from the LGPS cost cap, the SAB's governance working groups, or the 'Restricting exit payments in the public sector' / 'Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk' consultations.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	Officers participate in various scheme and industry groups and fora. The Committee and Board monitor LGPS developments. The Fund undertakes annual covenant reviews, has introduced employer grouped investment strategies on 1 April 2020 and works with at risk employers.	20	1	20


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WPF 09 (Chief Financial Officer)	Being reliant on LGPS Central Limited's investment approach following transitioning of assets.	Investment underperformance / regulatory non-compliance.	25	2	50	Emerging market assets were transferred in July 2019 and corporate bond assets were transferred in Feb 2020. The Pension Investment Sub Committee monitors performance of this investment manager. The Pensions Committee and Fund officers carry out a subjective review and objective analysis of asset performance resulting from decisions taken by the Pensions Committee following advice from its investment adviser.	20	1	20
WPF 22 (Chief Financial Officer)	The following key actuarial assumptions set at each actuarial valuation do not match our actual experience between actuarial valuations: the number of ill health retirements; that employer strain costs associated with early / redundancy / flexible retirements are covered by the payments collected from employers; pay / price inflation; and life expectancy.	Increases required in employer contributions.	20	2	40	Actuarial assumptions are reviewed regularly as part of each actuarial valuation to reflect analysis based on actual membership experience for the Fund and across the wider LGPS, as well updated national trends. We will introduce monitoring for all ill health retirements, advising employers of the increase in their liabilities associated with each case. The Fund is investigating making ill health liability insurance available to interested employers which will mitigate the Fund's exposure for those employers who take up the insurance. We check that employers have paid their strain costs for non-ill health cases and ensure that employers are made aware of the financial consequences of the retirements they offer their employees. During the 2019 actuarial valuation we highlighted to employers the need to make realistic pay assumptions and required evidence from employers to support any reduced pay inflation allowance within their assumptions. The impact of price inflation is mitigated to some degree as the Fund invests in assets which are sensitive to changes in price inflation e.g. index-linked Government bonds. The Fund intends to develop the investment pots further to provide greater inflation protection. Mortality assumptions are set with some allowance for future increases in life expectancy, and the cost cap should limit the impact of improvements in life expectancy, something that would not be expected in the short term following COVID-19.	15	1	15 (25)



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WPF 18 (Chief Financial Officer)	Failure of existing pension admin system to deliver the services contracted.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	2	50	The Fund has obtained business continuity assurance from Heywood as part of its COVID-19 response. Contract service is reviewed annually and there are regular meetings with Aquila Heywood. Robust system maintenance routines. Internal and external systems support. Back-up procedures. Business Continuity Plan. The Pension Administration Strategy reminds employers of their responsibility to provide accurate and timely information on pay. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood. The Fund has signed up to the national LGPS framework for pension admin systems and as Heywood are an approved supplier the Fund has independent validation of its current arrangements.	15	1	15 (25)

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WPF 20 (Chief Financial Officer and HR & OD Service Commissioning Manager)	Staff leaving or going on long term absence.	Insufficient staff resource or remaining staff not having the skills to do their areas of work.	25	2	50	Cross skilling is achieved by mentoring to develop officers with a high level of knowledge and experience. Officers have developed a staff knowledge assessment that will help to ensure functions are reviewed to ensure they are sufficiently staffed / have succession planning. Lockdown and home working have reduced the risks posed by COVID-19 re illness. The member of staff on long-term sickness has returned to work. Specialist agency cover is available. Absences will be managed in line with Worcestershire County Council's new attendance policy. Exit interviews / questionnaires are used to explore the reason for anyone leaving. The 2019 annual performance review cycle was used to discuss informal succession planning.	15	1	15 (25)
WPF 21 (Chief Financial Officer)	Failure of business continuity planning.	Inability to deliver critical functions like paying pensioners.	25	2	50	The Fund's and Worcestershire County Council's (WCC) Business Continuity Plans have passed the tests posed by COVID-19 to date. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood that means it is more securely backed up. The Fund will review lessons learned from its successful response to COVID-19 as we move out of lockdown. The Fund will ensure that WCC includes delivery of support services to the Fund in its risk register. Home working is in place.	15	1	15 (25)

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WPF 02 (Chief Financial Officer)	Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.	Poor decision-making / scrutiny.	15	2	30	Training policy, sessions and plans have been implemented in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework / best practice guidance. The Fund has undertaken a knowledge assessment of Committee and Board members. An induction training session for new members is being held on 22 May. Five training sessions were delivered between Sep 2018 and Feb 2020, the latest being on ESG, and officers are looking into non face to face options in the light of COVID-19.	15	1	15
WPF 13 (Chief Financial Officer)	Liquidity / cash flow is not managed correctly.	Assets may need to be sold at unplanned times or investment opportunities may be missed.	15	2	30	The Finance Manager - Pensions monitors Fund cash flow on a monthly basis and presented the latest review to the Chairs of the Committee and Board on 5 May. The Fund currently has under 15% of total net assets exposure to illiquid assets. All contributing employers are provided with deadlines for payments and clear guidelines for providing associated information. The Fund monitors contributions payable and paid on a monthly basis and also reconciles to E5 (our accounting system) on a monthly basis.	15	1	15
WPF 14 (Chief Financial Officer)	Failure to exercise proper stewardship of the Fund's assets.	Potential erosion of investment returns or reputational damage.	15	2	30	The Fund has a Statement of Compliance with the Stewardship Code. The Fund has tasked LGPSC with developing the identified reporting requirements. The Fund participates in the Local Authority Pension Fund Forum (LAPFF) and other groups. The Pension Investment Sub Committee monitors Environmental, Social and Governance (ESG) policy regularly.	15	1	15

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WPF 26 (HR & OD Service Commissioning Manager)	Fraud by staff.	Financial loss.	15	1	15	Audits of the Fund's processes take place on an ongoing basis, checking samples. Changes to Altair leave a footprint that identifies who made the change. Manager checking remains in place, supporting 'business as usual' whilst staff are working from home. Citrix has log-in security. Altair has multiple login protections. National Fraud Initiative information is processed every six months. The Fund is working to join Tell Us Once. Month end reconciliations are also carried out.	15	1	15
WPF 15 (Chief Financial Officer)	Failure of the actuary to deliver the services contracted.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice.	20	1	20	A review of the 2019 actuarial valuation project is scheduled. The contract is monitored using regular meetings / calls and can be renewed Oct 2020, with the Fund looking to use the LGPS national framework to procure in 2021.	15	1	15  (5)
WPF 01 (Chief Financial Officer)	Failure of governance arrangements to match up to recommended best practice.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice. Audit criticism or reputational damage.	25	2	50	The annual review and audit / sign off arrangements for the annual report that includes the Fund's Governance Compliance Statement are in place for 2020. The accounts are checked against the Chartered Institute of Public Finance and Accountancy (CIPFA) example accounts and an external audit accounts checklist. The Fund has a good governance position statement.	5	1	5
WPF 17 (Chief Financial Officer)	Failure of custodian to deliver the services contracted.	Loss / inaccessibility of assets / inability to invest.	25	1	25	COVID-19 has not proved a problem for the Finance Manager - Pensions review of managers' SAS70 audit reports. The Fund has diversification of custody via pooled funds. Contract service is reviewed annually and there are regular meetings with the supplier, BNY Mellon. Audits were completed in 2019 and are planned during 2020.	5	1	5

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WPF 04 (Chief Financial Officer)	Not having an established and meaningful Business Plan / Pension Administration Strategy.	Poor decision making and delays in responding to stakeholders e.g. elected members.	5	4	20	Pension admin KPIs / investment performance / project summaries are included in the Business Plan reviewed by the Pension Board and Pensions Committee on a regular basis. Investment performance is independently confirmed by Statesmen. E5 (our accounting system) management reports are available and automatic reporting is in place on the pensions admin system. The revised Pension Administration Strategy has been in place since 1 April 2020.	5	1	5
WPF 16 (Chief Financial Officer)	Failure of investment adviser to deliver the services contracted.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice.	20	1	20	Contract service is reviewed annually, objectives are in place and there are regular meetings with the supplier, M J Hudson.	5	1	5
WPF 25 (HR & OD Service Commissioning Manager)	Fraud by scheme members.	Financial loss.	5	1	5	The Fund is keeping to the same standards following COVID-19 by requiring a member signature as authorisation and not taking instructions over the phone. A signed form or instruction can be scanned and emailed to the Fund. Telephone callers are asked questions to check that they are who they claim to be. The Fund carries out National Fraud Initiative (NFI) checks, sends payroll slips / communications at intervals through the year to home addresses and requires evidence of certificates (e.g. birth certificate).	5	1	5



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WPF 29 (HR & OD Service Commissioning Manager)	Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.	Financial loss or loss of reputation / employer confidence or need for corrective action at short notice.	5	1	5	The Fund completed its annual review of its Policy Statement on Communications and relaunched it with the revised Pension Administration Strategy on 1 April 2020. Employee annual benefit statements that are returned to the Fund are passed on to the member's employer. The 2019 deferred and employee annual benefit statements were despatched before 31 Aug along with an accompanying newsletter. The Fund issued its first annual pensioner newsletter in Nov 2019. The 2020 deferred statements / newsletters have been issued and the actives are on schedule.	5	1	5
WPF 27 (HR & OD Service Commissioning Manager)	Incorrect calculation of benefits through human error or delayed notification of a death.	Too much being paid out in benefits.	5	1	5	In addition to system testing the Fund has a test system and a test site for Altair (the pension payroll system). Every calculation has independent checking and set procedures. Staff receive training and performance is benchmarked. The Fund has developed a revised overpayments write off process and intends to use it to report overpayments to the Pensions Committee. Life Certificates are also used.	5	1	5