

Risk Register

As at 28 02 2020

About this Risk Register

The following colour coding is used for the 32 residual risk scores:

- Red ≥ 45 (01 risks)
- Amber ≥ 25 but < 45 (14 risks)
- Green < 25 (17 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 02 12 2019 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 32 risks logged in this register are (in highest Residual Risk Score order):

- Mismatch in asset returns and liability movements.
- Failure to pool assets using LGPS Central Limited.
- 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.
- 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.
- Being reliant on LGPS Central Limited delivering its forecasted cost savings.
- 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 sufficient level of knowledge / competence.
- Failure of existing pension admin system to deliver the services contracted.
- Staff leaving or going on long term absence.
- Failure of business continuity planning.
- Cyber-attack leading to loss of personal data like bank account details.
- Failure to maintain the quality of our data.
- 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.
- The number of early retirements increases to levels in excess of the actuarial assumptions adopted. Pay and consumer price inflation significantly different from actuarial assumptions.
- Being reliant on LGPS Central Limited's investment approach following transitioning of assets.
- Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
- Failure to disclose relevant facts in the Annual Report or during audit(s).
- Liquidity / cash flow is not managed correctly.
- Failure to exercise proper stewardship of the Fund's assets.
- Fraud by staff.
- GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.
- 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 the actuary to deliver the services contracted.
- 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 as at 28 Feb 2020 Risk Reference (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 the funding position / mortality and morbidity experience is reviewed regularly by the Pensions Committee. The equity protection arrangements have been extended for a further 12 months to Sep 2020 as part of the investment strategy review. Fund officers meet with investment managers on watch more frequently than with other managers. 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 R E D |
| 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 LGPS Central pool. 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. | 20 | 2 | 40 A M B E R |

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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, whilst attempting to keep employer contributions as stable and affordable as possible. As part of the 2019 actuarial valuation the Fund has actively engaged with employers about how much they will be expected to pay for LGPS years 20/21 to 22/23 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. 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 and ensures that employers are reminded of their responsibilities through sending reminders of employers responsibilities where this is appropriate. The Fund undertakes annual covenant reviews, is introducing employer grouped investment strategies on 1 April 2020 and works with at risk employers. | 20 | 2 | 40 A M B E R |

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| WPF 31 (HR Service Centre 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 | To monitor guidance from Public Health England and the LGA. To investigate procedures that would see the Fund making approximated (under) payment of lump sum benefits in advance of doing full benefit calculations or amending the pensions payroll. To consider whether it is possible to make payments without a death certificate. To identify the priority order in which processes could be suspended (some like processing death grant nominations or adding starters who have died may require to be prioritised), allowing resources to be moved between the Fund's teams after developing appropriate training. To identify the options for prioritising payments e.g. leaving small pay outs whilst processing those above a £ amount or prioritising payments to those with access to little alternative sources of income. To identify whether / how the last pensioner payroll could be run without amendment. To identify how more cashflow would be raised quickly and the order in which the Fund's assets would be sold and what problems may happen regarding receiving the monies from any sale of assets. To arrange for an extension of permitted website content management system users. To liaise with other LGPS funds over developing an appropriate, documented way forward and identifying any potential for sharing resources. | 20 | 2 | 40 | A M B E R |
| WPF 10 (Chief Financial Officer) | Being reliant on LGPS Central Limited delivering its forecasted cost savings. | Paying too much in fees / investment under-performance. | 15 | 3 | 45 | The Pension Investment Sub Committee monitors the costs of being a partner fund of LGPS Central Limited. LGPS Central's Practitioners' Advisory Forum (PAF) works on changes to mitigate this risk. The Pensions Committee and Fund officers carry out a subjective review and objective analysis of these costs following advice from its investment adviser. The Fund has raised concerns with LGPSC, and an update on the forecast cost savings and cost sharing model was provided at the 13 Dec Pensions Committee. | 15 | 2 | 30 | A M B E R |

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| WPF 06 (Chief Financial Officer) | Fair Deal consultation proposals being implemented. | Increasing administrative complexity. | 15 | 3 | 45 | 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 A M B |
| WPF 19 (HR Service Centre 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 | To react to the WCC roll out of Windows 10 and the fact that Altair, the current pensions administration system, needs to be moved off the Oracle platform, the hosting of Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood, the supplier of Altair, on an interim basis pending the existing arrangement being decommissioned Jun 2020. Once a national LGPS framework for pension admin systems is available (it is expected in May 2020) the Fund will make use of it. | 15 | 2 | 30 A M B E R |

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| WPF 24 (HR Service Centre 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 | The Fund has reminded employers about their responsibilities by consulting them on proposed changes to the Pension Administration Strategy wef 1 April 2020 and 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 that were launched in May. Checking individual records at points of significant transaction is undertaken. | 15 | 2 | 30 A M B E R |
| 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 are being tabled at the 17 March Pensions Committee. | 25 | 1 | 25 A M B E R |

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| WPF 03 (Chief Financial Officer) | Failure of officers to maintain sufficient level of knowledge / competence. | 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. The Fund plans to develop its own workforce strategy as part of the Worcestershire County Council whole organisation redesign. | 25 | 1 | 25 A M B |
| 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 | Contract service is reviewed annually and there are regular meetings with the supplier, 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. To react to the WCC roll out of Windows 10 and the fact that Altair, the current pensions administration system, needs to be moved off the Oracle platform, the hosting of Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood, the supplier of Altair, on an interim basis pending the existing arrangement being decommissioned Jun 2020. Once a national LGPS framework for pension admin systems is available the Fund will make use of it. | 25 | 1 | 25 A M B E R |

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| WPF 20 (Chief Financial Officer and HR Service Centre 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. Functions are reviewed to ensure they are sufficiently staffed / have succession planning. Specialist agency cover is available. Absences will be managed in line with Worcestershire County Council's new attendance policy. The 2019 annual performance review cycle was used to discuss informal succession planning. | 25 | 1 | 25 A M B |
| WPF 21 (Chief Financial Officer) | Failure of business continuity planning. | Inability to deliver critical functions like paying pensioners. | 25 | 2 | 50 | The Fund and Worcestershire County Council (WCC) have Business Continuity Plans in place and these are regularly tested. The Fund will ensure that WCC includes delivery of support services to the Fund in its risk register. Remote access is widely in use by officers. | 25 | 1 | 25 A M B |
| WPF 28 (HR Service Centre Manager) | Cyber attack leading to loss of personal data like bank account details. | Data Protection breach / fraud. | 25 | 2 | 50 | The Fund conforms with (Worcestershire County Council) 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 A M B E R |
| WPF 30 (HR Service Centre 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 | We commission annual checks on the quality of our data and use the findings to target correcting those areas where our data is not of the highest quality. | 25 | 1 | 25 A M B |

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| 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. Roger Phillips, the Chair of the LGPS Scheme Advisory Board, will lead the Pension Board from 28 Feb. Our actuary is using individual member data when providing FRS data for individual employers' accounts. The Fund undertakes annual covenant reviews, is introducing employer grouped investment strategies on 1 April 2020 and works with at risk employers. | 20 | 1 | 20 G R E E N |

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| WPF 22 (Chief Financial Officer) | The number of early retirements increases to levels in excess of the actuarial assumptions adopted. Pay and consumer price inflation significantly different from actuarial assumptions. | Increases required in employer contributions. | 20 | 2 | 40 | Employers are required to pay lump sums to fund costs for non-ill health cases. The Actuary monitors early retirement (including on the grounds of ill-health) experience being exhibited by the Fund's members and consequently adjusts the actuarial assumptions. The Fund ensures that employers are made aware of consequences of their decisions and that they are financially responsible. At each actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate. The Fund holds discussions with employers through the Pension Administration Advisory Forum over the expected progression of pay in the short and long term. This information is then fed back to the Fund's Actuary with medium term financial plan budget evidence provided, if required. The Government's plan to increase pensions by the Consumer Prices Index Housing (CPIH) instead of CPI in future will reduce the Fund's liabilities. The Fund is investigating making ill health liability insurance available to interested employers. | 20 | 1 | 20 G R E E N |

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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 most 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 GREEN |
| 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 to include induction training sessions for new members and quarterly ongoing training for all members. Training sessions were delivered in Sep 2018, Dec 2018, July 2019, Nov 2019 and 2020. 3 April is the next scheduled training session. | 15 | 1 | 15 GREEN |

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| WPF 05 (Chief Financial Officer) | Failure to disclose relevant facts in the Annual Report or during audit(s). | Audit criticism or reputational damage. | 15 | 2 | 30 | Robust review and sign off processes are in place to check the disclosure of relevant facts. Accounts are reviewed prior to sending them to external audit. The accounts are also checked against the Chartered Institute of Public Finance and Accountancy (CIPFA) example accounts and external audit accounts checklist. The 2019 statement of accounts has been signed off by the Fund's auditors. | 15 | 1 | 15 GREEN |
| 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 | Finance Manager - Pensions monitors Fund cash flow on a monthly basis. 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 GREEN |
| 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 started work on the new Code. 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 GREEN |
| WPF 26 (HR Service Centre Manager) | Fraud by staff. | Financial loss. | 15 | 1 | 15 | Changes to Altair leave a footprint that identifies who made the change. Manager checking is in place. Citrix has log-in security and Altair has multiple login protections. Month end reconciliations are also carried out. Declarations by staff of personal relationships / family members is required. Internal Audit review the Fund's processes regularly. | 15 | 1 | 15 GREEN |

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| WPF 32 (HR Service Centre 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. | 15 | 1 | 15 | In advance of receiving the final reports from HMRC that are expected by 29 Feb, the Fund is planning to ensure that sufficient resources are available to deliver the rectification by quickly dry running results ASAP the reports are received to identify whether the total costs are within the £500,000 limit authorised by the January Pensions Committee meeting. 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? The Fund will investigate the taxation implications of underpayments / overpayments. The working assumption is that the Fund will write to affected members in June and implement the rectification in August. | 15 | 1 | 15 GREEN |
| 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. | 25 | 2 | 50 | The Fund updated its Governance Compliance Statement on 19 March 2019. This is included in the 2019 annual report. That report is signed off by its auditors. The Fund has replaced the Pension Investment Advisory Committee with a Pension Investment Sub Committee of the Pensions Committee that has decision making authority. The Fund has a good governance position statement. | 5 | 1 | 5 GREEN |
| WPF 17 (Chief Financial Officer) | Failure of custodian to deliver the services contracted. | Loss / inaccessibility of assets / inability to invest. | 25 | 1 | 25 | The Finance Manager - Pensions reviews 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. | 5 | 1 | 5 GREEN |

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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. A Pension Administration Strategy has been in place since 1 April 2019 and following consultation with employers a revised one will be in effect from 1 April 2020. | 5 | 1 | 5 GREEN |
| 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 | Contract monitoring is in place and was reviewed in 2017. There are regular meetings with the supplier, Mercer. | 5 | 1 | 5 GREEN |
| 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 and there are regular meetings with the supplier, M J Hudson. | 5 | 1 | 5 GREEN |
| WPF 25 (HR Service Centre Manager) | Fraud by scheme members. | Financial loss. | 5 | 1 | 5 | The Fund requires a member signature as authorisation and does not take 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). The Fund has actioned its 2019 information from NFI. | 5 | 1 | 5 GREEN |

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| WPF 29 (HR Service Centre 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 has a Policy Statement on Communications. 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. | 5 | 1 | 5 GREEN |
| WPF 27 (HR Service Centre 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 an overpayments process and reports overpayments to the Pensions Committee. Tracing agencies are used for members aged 65+. Life Certificates are also used. | 5 | 1 | 5 GREEN |