

# Risk Register

As at 07 09 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 16 06 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:

1. WPF 12 Mismatch in asset returns and liability movements.
2. WPF 10 Being reliant on LGPS Central Limited delivering its forecasted cost savings.
3. WPF 23 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.
4. WPF 11 Failure to pool assets using LGPS Central Limited.
5. WPF 31 Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.
6. WPF 06 Fair Deal consultation proposals being implemented.
7. WPF 19 Failure to procure a pensions admin system for the future.
8. WPF 24 Employers having insufficient skilled resources to supply our data requirements.
9. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts.
10. WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.
11. WPF 28 Cyber-attack leading to loss of personal data like bank account details.
12. WPF 30 Failure to maintain the quality of our member data.
13. WPF 32 GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.
14. WPF 07 Future change to LGPS regulations or other legislation, for example from SAB's governance working groups or from the written statement on remedying survivor benefits for opposite-sex widowers and surviving male civil partners where male survivors remain entitled to a lower survivor benefit than a comparable same-sex survivor or from the government's response to its 'Restricting exit payments in the public sector' consultation.
15. WPF 09 Being reliant on LGPS Central Limited's investment approach.
16. WPF 22 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.
17. WPF 18 Failure of existing pension admin system to deliver the services contracted.
18. WPF 20 Staff leaving or going on long term absence.
19. WPF 21 Failure of business continuity planning.
20. WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
21. WPF 13 Liquidity / cash flow is not managed correctly.
22. WPF 14 Failure to exercise proper stewardship of our assets.
23. WPF 26 Fraud by staff.
24. WPF 15 Failure of the actuary to deliver the services contracted.
25. WPF 01 Failure of governance arrangements to match up to recommended best practice.
26. WPF 17 Failure of custodian to deliver the services contracted.
27. WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy.
28. WPF 16 Failure of investment adviser to deliver the services contracted.
29. WPF 25 Fraud by scheme members.
30. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.
31. WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

WPF Risk Register 07 September 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	We regularly review our Investment Strategy Statement, have a diversified portfolio and implement 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, actuarial valuation assumptions and mortality / morbidity experience are reviewed regularly by the Pensions Committee. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to July 2021 for all of our passive market cap equity funds. We continue to liaise with all our investment managers in response to the initial market falls and ongoing market volatility caused by COVID-19, although equity markets have recovered a lot of the initial losses up to August 2020. 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 investment 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 we have not transferred many assets so far, there are fixed costs of being a partner fund. The Monthly Investment Working Group meetings review staffing changes at LGPSC.	25	2	50

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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 we 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 we are monitoring in the light of COVID-19. We have been able to offer some flexibility in exceptional circumstances: a top 10 employer with financial pressure has been allowed to phase in increased payments, reflecting our 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. We monitor membership profiles and changes, ensure that employers are reminded of their responsibilities where this is appropriate and work with at risk employers. We are currently undertaking the latest (2020) annual covenant review by analysing employers' financial metrics. We are setting up employer risk monitoring using Mercer's Pfaroe tool to enable us to monitor employer financial and other risks more closely. We have employer grouped investment strategies.	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	We are a working member and shareholder of 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. We will take legal advice before not pooling our assets and monitor the willingness of the pool to invest in the sort of assets that could have a positive impact on future funding levels. The first transfers of our assets (in emerging markets and corporate bonds) were undertaken in July 2019 / Feb 2020. Infrastructure investments and private debt are currently being looked into.	15	2	30
WPF 31 (Head of HR Service Commissioning)	Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.	Inability to deliver critical functions like paying deaths.	20	2	40	Whilst we have successfully moved to home-working supported by a small postal / scanning service at County Hall and expect to be able to adapt to the new ways of working, our workload and resources have as yet not been tested by a significant increase in member deaths or in staff absence. We are not experiencing problems with suppliers / employers. We continue to be vigilant and to keep our priorities under review by monitoring our KPIs and the guidance from Public Health England / the LGA. In preparation for a possible wave two, we have developed amendments to our 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

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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 we 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 we ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	15	2	30
WPF 19 (Head of HR Service Commissioning)	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. We have signed up to the national LGPS framework for pension admin systems to reduce the costs and timeframe of this procurement and investigated the terms of our existing contract with Heywood. The next step will be producing an implementation timeline.	15	2	30

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WPF 24 (Head of HR Service Commissioning)	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	MHCLG is consulting on amendments to the statutory underpin to remove the unlawful age discrimination identified in the McCloud judgment. As it is already clear that there will be significant resource implications for employers and LGPS funds, we have added McCloud to our list of projects and are consulting with our actuary re advising our employers how to proceed / our timescales / the contribution implications for employers who are not making advance financial provision. Two key issues to address in determining our resource requirements include the volume of calculations / aggregations that will be required and data accuracy / checking / availability (collecting data from employers who have changed payroll). In the face of COVID-19 our employers are continuing to deliver on their responsibilities. We updated the Pension Administration Strategy on 1 April 2020. We support 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. We have produced a new 'Transfers of staff between our employers / academy conversions' guidance note and accompanying Excel spreadsheet. 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 our diverse range of investment managers, meeting with / placing managers on watch as appropriate. We 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 our Investment Adviser were agreed at the 17 March 2020 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 our 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 .	25	1	25



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WPF 28 (Head of HR Service Commissioning)	Cyber attack leading to loss of personal data like bank account details.	Data Protection breach / fraud.	25	2	50	Whilst we are 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 (Head of HR Service Commissioning)	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 Mercer, Heywood and GAD data quality reviews shows our data is up with other LGPS funds. We will be using the standard approach re data collection for McCloud. We target correcting those areas where our data is not of the highest quality.	25	1	25
WPF 32 (Head of HR Service Commissioning)	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. Our supplier will undertake a dry run for GMP rectification in September. The working assumption that we will write to affected members in Jan 2021 and implement the rectification in March 2021, dates that have been put back due to HMRC delaying the provision of data extracts.	25	1	25

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WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example from SAB's governance working groups or from the written statement on remedying survivor benefits for opposite-sex widowers and surviving male civil partners where male survivors remain entitled to a lower survivor benefit than a comparable same-sex survivor or from the government's response to its 'Restricting exit payments in the public sector' consultation.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	MHCLG is consulting on amendments to the statutory underpin to remove the unlawful age discrimination identified in the McCloud judgment. As it is already clear that there will be significant resource implications for employers and LGPS funds, we have added McCloud to our list of projects and are consulting with our actuary re advising our employers how to proceed / our timescales / the contribution implications for employers who are not making advance financial provision. Two key issues to address in determining our McCloud resource requirements include the volume of calculations / aggregations that will be required and data accuracy / checking / availability (collecting data from employers who have changed payroll). We are monitoring the plans for new legislation / member options to follow up on the government's plans to limit exit payments in the public sector. We have checked with Equiniti that Brexit will not present us with problems in paying pensions overseas. Officers participate in various scheme and industry groups and fora. The Committee and Board monitor LGPS developments. We are setting up employer risk monitoring using Mercer's Pfaroe tool to enable us to monitor employer financial and other risks more closely. We undertake annual covenant reviews, have introduced employer grouped investment strategies on 1 April 2020 and work with at risk employers.	20	1	20
WPF 09 (Chief Financial Officer)	Being reliant on LGPS Central Limited's investment approach.	Investment underperformance / regulatory non-compliance.	25	2	50	We are challenging LGPSC's infrastructure ideas. The Pension Investment Sub Committee monitors performance of this investment manager. The Pensions Committee and officers carry out a subjective review and objective analysis of asset performance resulting from decisions taken by the Pensions Committee following advice from our investment adviser.	20	1	20

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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 our actual membership experience 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. We are investigating making ill health liability insurance available to interested employers which will mitigate our 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 we invest in assets which are sensitive to changes in price inflation e.g. index-linked Government bonds. We intend 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

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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	We have 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. We have signed up to the national LGPS framework for pension admin systems and as Heywood are an approved supplier we have independent validation of its current arrangements.	15	1	15

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WPF 20 (Chief Financial Officer and Head of HR Service Commissioning)	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	We are preparing for the maternity absence of one of our Senior Pensions Assistants. 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. 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.	15	1	15
WPF 21 (Chief Financial Officer)	Failure of business continuity planning.	Inability to deliver critical functions like paying pensioners.	25	2	50	Our 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. We will review lessons learned from its successful response to COVID-19 as we move out of lockdown. We will ensure that WCC includes delivery of support services to us in its Risk Register. Home working is in place.	15	1	15

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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. We have undertaken a knowledge assessment of Committee and Board members. Induction training session for new members was held on 30 June and 4 Sep. Five training sessions were delivered between Sep 2018 and Feb 2020.	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 cash flow on a monthly basis. We currently have 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. We monitor contributions payable and paid on a monthly basis and also reconcile to E5 (our accounting system) on a monthly basis.	15	1	15
WPF 14 (Chief Financial Officer)	Failure to exercise proper stewardship of our assets.	Potential erosion of investment returns or reputational damage.	15	2	30	We have a Statement of Compliance with the Stewardship Code. We have tasked LGPSC with developing the identified reporting requirements. We participate in the Local Authority Pension Fund Forum (LAPFF) and other groups. The Pension Investment Sub Committee monitors Environmental, Social and Governance (ESG) policy regularly. We are conducting an ESG audit which will aid our stewardship and help inform our future investment strategy.	15	1	15
WPF 26 (Head of HR Service Commissioning)	Fraud by staff.	Financial loss.	15	1	15	Audits of our 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. We are working to join Tell Us Once. Month end reconciliations are also carried out.	15	1	15

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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	Following a review of their performance we have renewed Mercer's contract to 31 Oct 2023.	15	1	15
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 our 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. We have reviewed our Governance Policy Statement. We have 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. We have 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
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

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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 (Head of HR Service Commissioning)	Fraud by scheme members.	Financial loss.	5	1	5	We are 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 us. Telephone callers are asked questions to check that they are who they claim to be. We carry 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
WPF 29 (Head of HR Service Commissioning)	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	We completed our 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 us are passed on to the member's employer. The 2020 deferred and employee annual benefit statements were despatched before 31 Aug along with an accompanying newsletter. We are on schedule to produce our second annual pensioner newsletter in Nov.	5	1	5
WPF 27 (Head of HR Service Commissioning)	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 we have 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. We have developed a revised overpayments write off process and intend to use it to report overpayments to the Pensions Committee. Life Certificates are also used.	5	1	5



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