West Midlands Pension Fund

Internal Audit Plan - 2016/17

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A quick guide to the audit and assurance planning process

Step 1- Audit universe/auditable areas

Identify the audit universe (i.e. a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the Fund's ability to deliver its objectives. Then, identify if we can gain assurance that any of these risks are being managed adequately from other sources of assurance.

- Key Financial Systems, such as any work undertaken to assist the external auditors.

- Areas where we use auditor's knowledge, management requests and past experience etc.

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Step 2 – Ranking

Where appropriate score each auditable area as a high, medium or low assurance need using the CIPFA scoring methodology of materiality/business impact/audit experience/risk/ potential for fraud.

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Step 3 – Three year cycle

Consider the likely medium and high assurance need themes and/or areas for the next three years. High need themed areas will be reviewed annually, medium need usually once in a three year cycle, while a watching brief will remain on the low needs.

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Step 4 – 2016/17 Plan

List the themes and where appropriate the types of work that will be undertaken in 2016/17 in the internal audit plan.

Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Source: The Public Sector Internal Audit Standards

Governance

The arrangements in place to ensure that the Fund fulfils its overall purpose, achieves its intended outcomes and operates in an economical, effective, efficient and ethical manner.

Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the Fund's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the Fund and the reporting of financial management
- the performance management of the Fund and the reporting of performance management.

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e. through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

Pensions Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the Fund's policies, processes and controls and the second being managers' own checks of this first line.

Internal Audit standards
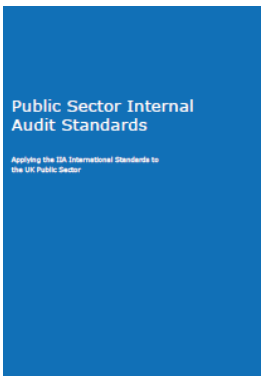
The internal audit team comply with the standards as laid out in the Public Sector Internal Audit Standards that came into effect on 1 April 2013.

1   Introduction

1.1   The purpose of internal audit is to provide the Strategic Director, Section 151 Officer and Pensions Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Fund's agreed objectives. In order to provide this opinion, we are required to review the risk management and governance processes. We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.

1.2   There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. Wolverhampton Audit Services have an internal audit charter which was approved by the Council's Audit Committee and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the organisation. This plan sits alongside the charter, and helps determine how the internal audit service will be developed.

1.3   The purpose of this document is to provide an internal audit plan, based upon an assessment of assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the Fund's operations which are assessed as generating the greatest risk to the achievement of the Fund's objectives.

2   Assessing the effectiveness of risk management and governance

2.1   The effectiveness of risk management and governance will be reviewed when appropriate and on an individual audit basis, in order to gather evidence to support our opinion to the Pensions Committee. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

3   Assessing the effectiveness of the system of control

3.1   In order to be adequate and effective, management should:

- Establish and monitor the achievement of the Fund's objectives.

- Identify, assess and manage the risks to achieving the Fund's objectives.

- Ensure the economical, effective and efficient use of resources.

- Ensure compliance with established policies, procedures, laws and regulations.

- Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

- Ensure the integrity and reliability of information, accounts and data.

These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control.

4 Assessment of assurance needs methodology

4.1 Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the Fund and the key risks that it faces. Activities that contribute significantly to the Fund's internal control system, and also to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative risk value. The purpose of this approach is to enable the delivery of assurance to the Fund over the reliability of its system of control in an effective and efficient manner.

4.2 We have undertaken our assessment using the following process:
- We identified the core objectives of the Fund and, where available, the specific key risks associated with the achievement of those objectives.
- We then identified auditable themes and areas that impact significantly on the achievement of the control objectives.
- We assigned risk values to the auditable themes and areas, based on the evidence we obtained.

4.3 The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2016/17 financial year and is detailed at the end of this document.

5 The assessment of assurance need - identifying the Fund's objectives and the associated risks

5.1 The internal audit plan aligns to the Fund's own business priorities as follows:

- To improve our funding level
- To provide excellent customer service
- To achieve target investment returns
- To become a top performing fund

The Fund has identified the 10 top strategic risks as potentially impacting upon its ability to achieve its objectives:

Liabilities need to be orphaned across the Fund's remaining employers in the event of an employer failing.	Fund does not achieve investment returns
Pension benefits are calculated with inaccurate or incomplete data	Fund breaches Information Security and Data Quality regulations
The Fund does not compete the Guaranteed Minimum pension reconciliation	Lack of independence between the fund, elected members and Pensions Board representatives from their authorities
Future liabilities increase	The Fund cannot continue to operate following a disaster, IT incident or data loss.
Failure to adhere to statutory requirements	Change in government policy / LGPS reforms

Assessing the risk of auditable areas within the assurance framework

5.2 Risk is defined as "The threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and execute its strategies."
Source: Economist Intelligence Unit - Executive Briefing.

5.3 There are a number of key factors for assessing the degree of assurance need within the auditable area. These have been used in our consideration for each auditable area and are based on the following factors:

- Materiality

- Business impact

- Audit experience

- Risk

- Potential for fraud

5.4 In this model, the assignment of the relative values are translated into an assessment of assurance need. These ratings used are high, medium or low to establish the frequency of coverage of internal audit.

6 Developing an internal audit plan

6.1 The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the Fund's own risk analysis/assessment. The plan has been designed so as to, wherever possible, cover the key risks identified by such risk analysis.

6.2 In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.

It is recognised that a good internal audit plan should achieve a balance between clearly setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year.

7 Considerations required of the Pensions Committee and Senior Management

- Are the objectives and key risks identified consistent with those recognised by the Fund?

- Does the plan include all the themes which would be expected to be subject to internal audit?

- Does the plan cover the key risks as they are recognised?

- Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?

8   How the internal audit service will be delivered

Communication of results
The outcome of internal audit reviews is communicated by way of a written report on each assignment undertaken. However, should a serious matter come to light, this will be reported to the appropriate level of management without delay.

Staffing
The internal audit service is provided by the City of Wolverhampton Council's Audit Services. Its employees are recruited, trained and provided with opportunities for continuing professional development. All employees are subject to the Council's appraisal scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Quality assurance
All audit work undertaken is subject to robust quality assurance procedures as required by relevant (i.e. CIPFA, CIIA) professional standards. These arrangements are set out in the Public Sector Internal Audit Standards and require that all working papers and reports are subject to thorough review by professionally qualified accountancy (CCAB) staff.

The City of Wolverhampton Council internal audit team

The City of Wolverhampton Council and Sandwell Metropolitan Borough Council have entered into a unique shared service arrangement for their internal audit, risk, fraud and related services. The shared service has a wide and varied customer base including the two local authorities, West Midlands Fire Service, West Midlands Pension Fund, Sandwell Leisure Trust, a number of school academy convertors and a new mutual organisation. We have also entered into a new partnership arrangement with Centro. Our aim is to add real benefits to our customers in their key areas of audit, governance, control, counter fraud and risk.

Our current customer base includes:

We can provide a range of services including:

- internal audit
- fraud and corporate investigations service
- risk management
- assurance mapping
- partnership governance
- consultancy/advice
- targeted training
- insurance services
- health and safety service

9   Internal Audit Plan – 2016/17

The following planned audit reviews have been discussed with senior management and are predominantly based on the key risks identified in the latest risk register. More detailed scoping of each review will take place prior to its commencement. There is also the opportunity to undertake any additional audit work as requested on a consultancy basis.

ANA = assessment of audit need (high, medium or low)

Pensions Administration	ANA
Covenant Monitoring - A review of arrangements to ensure that covenants are obtained in accordance with established procedures and appropriately monitored.	high
Review of Pensions Administration Strategy (PAS) – A review to ensure that the Fund adheres to conditions set out in the PAS.	high
Data Quality – A review of the processes to ensure the accurate receipt and processing of member information.	high
Internal Disputes Resolution Procedure – A review of the effectiveness of systems established to progress and resolve disputes.	high
Pensions Investments	
External Managers Reporting Arrangements - A review of procedures for the receipt, monitoring and evaluation of internal control reports from external managers.	medium
Transition Arrangements - Pooled investments (this will be dependent on project progress / timescales).	high
Governance	
Pensions Board – A review of governance arrangements.	high
Safeguarding – A review of current procedures and assistance in the development of a policy regarding the Fund's responsibility for ensuring vulnerable members are transferred to appropriate services.	high (manager request)
Finance	
Agresso Operations – A review of the new finance systems – accounts payable and receivable, general ledger, access arrangements, processing and reporting routines.	high
Debt Monitoring Arrangements – A review of procedures for the progression and recovery of outstanding debts.	high
Key Financial Systems – Annual assurance audits to confirm that key controls within systems have been operating satisfactorily throughout the year. This includes payroll, members' contributions, employers' contributions, benefit calculations, income and expenditure controls (settlements procedures).	annual reviews

Corporate Activities	
Counter Fraud	In accordance with the Cabinet Office requirements, we also lead on the National Fraud Initiative's data matching exercise.

Also, if required we can undertake investigations into areas of suspected fraudulent activity and undertake a series of organisation wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity, maintenance of a fraud risk register, completing returns and benchmarking for national anti-fraud drives etc. |
Recommendation - Follow up	The follow up review of key audit recommendations made in 2015/16.
Contingency and Consultancy (as and when required)	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Pensions Committee	Preparation and presentation of papers for committee, and providing technical updates, advice and training to committee members as and when required.
Management	Day to day management of the internal audit service, quality control, client and External Audit liaison and preparation for, and attendance at various senior officer meetings.