

Internal Audit Annual Report 2018-2019



Introduction

Our internal audit work for the period 2018-2019 was carried out in accordance with the Internal Audit Plan. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of West Midlands Pension Fund's (the Fund) governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the Fund's assurance framework, which supports the City of Wolverhampton Annual Governance Statement and WMPF annual report. This is only one aspect of the assurances available to the Fund as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Fund may rely, could include:

- The work of the external auditors;
- Statutory policies and plans;
- Compliance reviews;
- The results of any quality accreditations;
- Other pieces of consultancy or work designed to alert the Fund to areas of improvement;
- Other external review agencies

As stated above, the framework of assurance comprises a variety of sources and not only the Fund's internal audit service. However, Internal Audit holds a unique role as the only independent source of assurance on all internal controls. Internal Audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the Fund's risks and its overall whole control environment but also all sources of assurance. In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance.

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "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".

Overall Assurance

As the providers of internal audit to the Fund, we are required to provide the Managing Director, Director of Pensions and Section 151 Officer with an opinion on the adequacy and effectiveness of the governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Managing Director, Director of Pensions and Section 151 Officer is reasonable assurance that there are no major weaknesses in the Fund's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2019.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit

Internal audit opinion

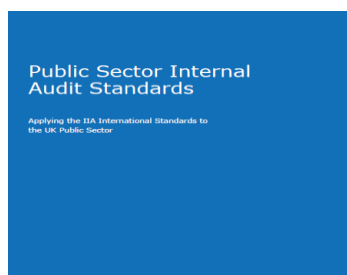
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in the paragraph above, our opinion is as follows:

Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Fund by other providers as well as directly by Internal Audit, Internal Audit can provide **reasonable assurance** that the Fund has adequate and effective governance, risk management and internal control processes.

In reaching our opinion, the following factors were taken into consideration:

- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year.

Compliance with the Public Sector Internal Audit Standards



The internal audit service follows the Public Sector Internal Audit Standards.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review. The responsible employee will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Summary of audit reviews completed

The following internal audit reviews were completed during 2018-2019:

Auditable area	Date	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Annual Benefit Statements The audit examined processes to ascertain whether appropriate actions were taken to facilitate the accurate and timely issue of annual benefit statements.	November 2018	-	2	4	6	6	Satisfactory
GDPR Review Following the introduction of the General Data Protection Regulation (GDPR) in May 2018, a review was undertaken to provide assurance that the controls and procedures implemented were fully embedded within the Fund and operating effectively.	October 2018	-	-	5	5	5	Satisfactory
Members Communications The audit focused on ensuring that the Fund was providing information to members in accordance with legislative and regulatory timescales.	January 2019	-	-	2	2	2	Substantial
Payroll A review of the Fund's pensions payroll system was undertaken.	November 2018	-	-	2	2	2	Substantial

Auditable area	Date	Recommendations					Level of Assurance
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<p>Review of Pensions Administration Strategy</p> <p>The audit examined the Fund's internal review of the PAS, undertaken in early in 2018. The review focussed on the roles and responsibilities of both employers and the Fund, and the associated performance measures.</p>	March 2018	-	2	6	8	8	Satisfactory
<p>Transfer of Assets</p> <p>An audit review of the initial transfer of assets was undertaken. Investments valuing £5.2 billion were transferred from the Fund to LGPSC. This represents approximately a third in value of the Fund's total net assets.</p>	February 2019	-	-	4	4	4	Substantial
<p>Trustee Governance Arrangements</p> <p>An audit of trustee governance arrangements provided assurance that the Fund has appropriate controls and procedures in place and adheres to the Constitution, internal policies and regulatory guidance</p>	April 2019	-	-	5	5	5	Substantial

Key Financial Systems Work

A full review of the controls within the payroll system has been completed. We also reviewed the high-level controls for the calculation of benefits. We evidenced robust systems and the continuous application of internal controls. Overall, we provided a substantial level of assurance for this work.

Follow up Reviews

A review of recommendations made as part of the 2017/2018 internal audit programme confirmed that all actions had been appropriately implemented or were in the process of being implemented.

Consultancy / ad hoc work

- Internal audit has completed 33 financial appraisals on behalf of the Fund during the year. These are undertaken when an organisation is seeking to obtain admitted body status and establishes whether an organisation will, or will not be able to meet its financial obligations to the Fund.
- In accordance with the Cabinet Office requirements, internal audit continues to be the Fund's key contact for the National Fraud Initiative. In addition, advice and support is provided throughout the year when requested.
- We have worked closely with the Pool's Partner Fund audit teams and with LGPS Central to develop an appropriate assurance framework. This work is still ongoing and will continue throughout the new financial year.
- We have provided advice and consultancy to the Fund as required and liaise with the Fund's compliance team with regards to risk and ongoing issues.
- In addition, we have provided ongoing support to the Fund's external auditors throughout the year.