



West Midlands Pension Fund

Internal Audit Plan - 2015/16



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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 Funds 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 the managed audit work we do to assist the external auditors.
- Areas where we use auditor's knowledge, management requests and past experience etc.



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.



Step 3 – Three year cycle

List 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.



Step 4 - Next Years Plan

List the themes and where appropriate the types of work that will be undertaken in 2015/16 in the internal audit plan.

A Glossary of Terms

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.

Governance

The arrangements in place to ensure that the Pension Fund fulfils its overall purpose, achieves its intended outcomes for members 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 Pension 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 Pension Fund and the reporting of financial management
- the performance management of the Pension 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 Pension 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 and Pensions Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Pension Fund's agreed objectives. In order to provide this opinion, we are required to review annually 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 has an Internal Audit Charter which defines the activity, purpose, authority and responsibility of internal audit. This document 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 the Pension Fund with an internal audit plan, based upon an assessment of its 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 Pension Fund which are assessed as generating the greatest risk to the achievement of its objectives.

2 Assessing the effectiveness of risk management and governance

- The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Strategic Director and 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 Pension Fund's objectives and facilitate policy and decision making.
•	Identify, assess and manage the risks to achieving the Pension Fund's objectives.
•	Ensure the economical, effective and efficient use of resources.
•	Ensure compliance with established policies, procedures, laws and regulations.
•	Safeguard the Pension Fund's 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. The annual reviews of risk management and governance will cover the control environment and risk

assessment elements, at a high level. The programme of work developed as the outcome of the assessment of assurance need exercise will cover the system level control activities.

- 3.2 The plan contained within this report is our assessment of the audit work required in order to measure, evaluate and report on the effectiveness of risk management, governance and 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 Pension Fund and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the Pension Fund's objectives.
- 4.2 Activities that contribute significantly to the Pension 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 Pension Fund over the reliability of its system of control in an effective and efficient manner.
- 4.3 We have undertaken our assessment using the following process:
- We identified the core objectives of the Pension 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.
- 4.4 The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2015/16 financial year and is detailed at the end of this document.

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

- 5.1 The following are the Pension Fund's key objectives as set out in their Business Plan:
- To be a top-performing fund
 - To achieve target investment returns
 - To provide excellent customer service
 - To meet our funding strategy

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

The Pension Administration Strategy (PAS) is not complied with by employers

The Fund breaches Information Governance and Data Protection laws / regulations

Pension benefits are calculated with inaccurate or incomplete data
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Liabilities need to be orphaned across the Funds remaining employers in the event of an employer failing
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Elected Members do not maintain appropriate levels of independence from their Authorities
The Fund invests in an inappropriate asset allocation
Payment of pensions increase is not made
The Fund invests with unsuitable managers
The Fund cannot continue to operate and deliver its priority services following a disaster or data loss scenario
Fund processes are subject to fraud

Identifying the “Audit Universe”

- 5.2 In order to undertake the assessment of assurance need, it is first necessary to define the audit universe for the Pension Fund. The audit universe describes all the systems, functions, operations and activities undertaken by the Pension Fund. Given that the key risk to the Fund is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the Fund, as identified in 5.1 above, and the management objectives in 3.1 above. These auditable areas include the control processes put in place to address the key risks.

In addition to this, there are also common systems and functions which are generic to all areas, along with a number of mandatory reviews. Where deemed appropriate they may also be included in the audit universe set out in detail at the end of this document.

Assessing the risk of auditable areas within the assurance framework

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

• Materiality
• Business impact
• Audit experience
• Risk
• Potential for fraud

- 5.5 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 Pension 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. Traditionally Audit Services have produced quite detailed internal audit annual plans identifying all the individual audits planned for the year, and this approach does have the advantage of providing a clear route map to the end of year opinion. However, as the year progresses it is likely that the risks and organisational priorities will change, resulting in changes to the plan. This is a particular issue within the local authority environment at this moment in time, due to the pace of change and high level of uncertainty affecting the risk environment. Therefore, for 2015/16 we are keeping the audit plan more open than previously, and, where appropriate, the new plan reflects themes and types of work rather than individual audits. More detailed working plans will be maintained operationally within Audit Services. This approach should hopefully result in a more realistic and flexible plan.

Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.

- 6.3 The assessment of assurance need's purpose is to:
- determine priorities and establish the most cost-effective means of achieving audit objectives;
 - assist in the direction and control of all audit work

This exercise builds on and supersedes previous internal audit plans.

- 6.4 Included within the plan, in addition to audit days for field assignments are:
- a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
 - a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
 - an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various member meetings and Pensions Committee etc.

7 Considerations required of the Pensions Committee and Senior Pensions Fund Management

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

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

Are the risk scores applied to the plan reasonable and reflect the Pension Fund?
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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?
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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

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 division's standards manual and require that all working papers and reports are subject to thorough review by professionally qualified accountancy (CCAB) staff.

Combined assurance

We work in conjunction with the Fund's External Auditors (PwC) in order to ensure that the assurance both internal and external audit can provide, is focussed in the most efficient manner and that any duplication is eliminated.

2015/16 Internal Audit Plan

Top Ten Strategic Risks	Audit Reviews
<p>Identified by the Pension Fund (numbered 1 to 10 in brackets) note: planned audits do not provide absolute assurance for each risk. Reliance should also be obtained from other sources.</p>	<p>Planned audit reviews have been discussed with Pensions Management based on, but not entirely, the top ten risks. The specifications of each review will be finalised at the time of audit. There is also the opportunity to undertake any additional audit work as requested on a consultancy basis.</p>
Administration	
<ul style="list-style-type: none"> • Non-compliance with PAS (1) • Inaccurate calculation of benefits (3) • Liabilities not orphaned across employers(4) • Non-payment of pensions increase (7) 	<ul style="list-style-type: none"> • Review of Pensions Administration Strategy (PAS) - A review of the controls and monitoring procedures in relation to individual employers' adherence to the PAS. • Admitted Bodies - Guarantee Scheme - A review of controls and procedures for the acceptance of guarantees from new employers.
Investments	
<ul style="list-style-type: none"> • Investment in inappropriate asset allocation (6) • Investment with unsuitable managers (8) 	<ul style="list-style-type: none"> • Asset Allocation Review – A review to ensure the investment strategy is appropriately managed and linked to the funding strategy. • Fund Management: A systems review of individual fund management arrangements.
Governance	
<ul style="list-style-type: none"> • Breach of information governance and data protection (2) • Independence of elected members (5) • Disaster recovery (9) • Fraud (10) 	<ul style="list-style-type: none"> • Assurance Mapping - Development of a Fund Assurance Map to provide evidence that risks are being considered by both internal and external sources. • Business Continuity/Resilience Management - A review of management processes adopted.

Annual Audits	
Key Financial Systems	Annual audits completed in conjunction with the external auditors to provide assurance that controls within key systems have been satisfactorily operated throughout the year. Typically, this includes payroll, member contributions, administration of member records, investment income and expenditure and benefit calculations.
Risk Management and Governance	An annual high level review of the overall control environment, This year's review will ascertain that new governance structures have been appropriately embedded.

Corporate Work (delivered across the council)	Purpose
National Fraud Initiative	In accordance with Audit Commission requirements, we will lead on the NFI data matching exercise, including working with the successor body and to the Audit Commission (the Cabinet Office).
Counter Fraud Activities	A series of pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity, hosting fraud awareness seminars, fraud surgeries and the production of anti-fraud and corruption newsletters.
Recommendation Follow up	The follow up of key internal audit recommendations made in 2014/15.
Development and Advice	Reviewing systems developments on key controls and providing advice relating to systems not necessarily covered by audits scheduled for 2015/16.
Financial Appraisals	Provision of financial risk information to the Fund for new admission body applications.
Contingency	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Pensions Committee	Preparation and presentation of papers for committees, and providing advice and training to committee members as and when required.