

Appendix A

West Midlands Pension Fund

Internal Audit Annual Report 2019/2020



1. *Introduction*

Our internal audit work for the period from 1 April 2019 to 31 March 2020 was carried out in accordance with the approved 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 the Fund's governance, risk management and control processes. In this way our annual report provides one element of evidence that helps to confirm the control environment of the Fund and supports the Annual Governance Statement for the City of Wolverhampton Council which it is required to make to accompany its annual financial statements. 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, include:

- The work of the External Auditors (Grant Thornton)
- The result of any quality accreditation
- Other pieces of consultancy or third- party 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 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 where appropriate. 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".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Executive Summary

As the providers of internal audit to the Fund, we are required to provide the Director, Section 151 Officer, Pensions Committee and Board with an opinion on the adequacy and effectiveness of the Fund's 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 is reasonable assurance that there are no major weaknesses in governance, risk management and control processes. We have considered:

- All audits undertaken for the year ended 31 March 2020.
- 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.
- The Fund's Strategic Risk Register.

Internal Audit Opinion

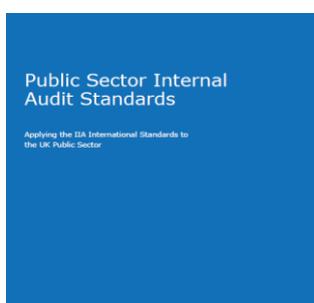
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

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 particular consideration:

- We have had unfettered access to all records and employees during 2019-2020.
- 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 the year.
- While stand-alone reviews of governance and risk management are not undertaken, consideration of both these issues are implicit in all internal audit work. Similarly, assurance is gained from the regular review of the Fund's Strategic Risk Register.

Compliance with the Public Sector Internal Audit Standards



The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the City of Wolverhampton Council's Audit and Risk Committee.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer 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.

Further, an audit opinion is provided for each report issued, this sets out our overall opinion regarding the control environment for the area audited. Three opinions are provided:

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.

2. Summary of work undertaken

Planned audit reviews

The following audit reviews were completed during the 2019-2020 financial year.

Audits Completed	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Risk Management Review	Med	-	-	3	3	3	Substantial
Recruitment and Retention of Employees	High	-	1	3	4	4	Satisfactory
Accounts Receivable	High	-	3	4	7	7	Satisfactory
Accounts Payable	High	-	-	2	2	2	Substantial
Main Accounting	High	-	-	4	4	4	Substantial
Treasury Management	High	-	2	1	3	3	Satisfactory

Risk Management

The Fund's risk register is key to the Fund's overall internal control framework and a strong risk framework is essential for the Fund to gain assurance on its activities. We reviewed the framework together with the risk cycle, including identification, analysis, control and monitoring of risks and found that strong monitoring procedures were in place and testing confirmed evidence of challenge and review of risks.

Recruitment and Retention

Our review focussed upon what controls the Fund had in place to address the resource and skill risks identified in CIPFA's "Managing Risk in the Local Government Pension Scheme". We noted that the Fund had developed a five-year service plan which highlighted the importance of people resources and detailed workings to support budgetary provision were maintained, including the control of agency costs. Further, different approaches to resourcing were used such as secondments, shared services and outsourcing. One amber recommendation was made and agreed with management regarding the absence of an updated workforce development strategy.

Accounts Receivable

At the time of audit, the total debt profile for the Fund was £18.2m. This audit sought assurance that robust monitoring and management arrangements were in place. We found suitable controls for raising debtor invoices, monthly aged debt reports were reviewed and regular reconciliations between accounts receivable and the general ledger were undertaken. However, the Fund did not have a current Debt Monitoring and Write-Off policy, there were a number of debts over two years old which required review and we noted potential control weakness in the process for raising credit notes. All recommendations have been agreed with management.

Accounts Payable

At the time of audit, the value of invoices paid in 2019/20 was £24M across approximately 1,500 invoices. Whilst a substantial assurance rating was given, it was considered that the manual systems used by the Fund would be placed under strain and risks would be increased if invoice numbers increased. However, we found that appropriate checks were undertaken

when setting up a creditor reference and workflows were in place to authorise new and amended creditor references. There was an appropriate separation of duties and reconciliations were undertaken between the accounts payable and general ledger systems.

Main Accounting

The review of main accounting processes with the Fund found no significant weaknesses. The budgets were available within Business World, monthly budget monitoring was taking place, together with quarterly budget forecasts presented to Pensions Committee. The closure of the 2018/19 accounts was achieved on a timely basis, in accordance with legislation. Regular bank reconciliations were being prepared and system reports to reconcile Accounts Payable and Accounts Receivable to the General Ledger were reviewed every week. Further, closing balances in 2018/19 successfully reconciled to opening balances in 2019/20 within Business World.

Treasury Management

At the time of audit, there was approximately £120M of cash invested in money market funds. We identified that further action needed to be taken in order to be able to fully demonstrate compliance with CIPFA's Treasury Management in the Public Services - Code of Practice, and issues with retaining evidence in support of the daily operational processes for the treasury management activities were identified. It was not possible to evidence a full audit trail to demonstrate a segregation of duties. In addition, transactions were not being added on a timely basis to ICON. However, these issues have since been addressed by management and revised procedures adopted.

LGPS Assurance Work

As a member of the Internal Audit Working Group with our Partner funds, the following work has also been completed during the year.

Work Completed	Details
LGPS Ltd Internal Controls Progress Report. (LGPS Ltd is the company owned by partner funds, to manage the pooled assets of the eight midlands Local Government Pensions Schemes).	A review of LGPS Ltd self-assessment of the design, implementation and operating effectiveness of controls within the company. This is in preparation for the full assurance report (AAF) expected in 2020 from the company.
Review of the LGPS Asset pooling and Governance Report	In conjunction with the partner funds internal auditors, and agreed audit programme, we reviewed the report produced by Staffordshire County Council which assessed the governance arrangements for the pool.
Control of Investments by LGPS Ltd Audit Review	In accordance with the agreed audit programme, we are leading on the audit review of pool investment arrangements, concentrating on communications, provision of information and engagement between LGPS Ltd and partner funds.
Internal Audit Working Group	Continued membership and participation in the partner fund internal audit working group.

On-going assurance work

Counter Fraud Activities

We continue to act as the Fund's key contact for the National Fraud initiative along with providing details of initiatives put in place, in order to both raise awareness of, and tackle fraud.

Follow up of previous recommendations

We also continue to monitor the implementation of previous key recommendations. An annual review of agreed key actions from reviews is undertaken and reported.

Consultancy and advice work

In addition to the planned audits completed in the year, we have also been involved in consultancy and advice projects including a review of the requirements for an external pensions administration standards accreditation (PASA). Participation in training to Pensions Committee and Board members and the provided advice to the finance team as they introduced new working practices. Further, we continue to work with the Governance Team in developing good governance arrangements throughout the Fund.

As part of ongoing support to the Fund, we completed 25 credit checks using Dunn and Bradstreet to review individual organisations financial stability when seeking admission to the Fund.