

# West Midlands Pension Fund Internal Audit Plan 2020-2021



West Midlands Pension Fund

Appendix B



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## 1. Introduction

- 1.1 The purpose of internal audit is to provide the Director, Pensions Committee, Board and Section 151 Officer 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 annually the risk management and governance processes within the Fund. 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 The purpose of this document is to provide the Fund with an internal audit plan for the 2020-2021 financial year. This plan has been subject to Senior Management Team approval and individual audit dates and timings will be agreed with individual managers during the year. It should be noted that the plan has been considered and amended in response to the early implications arising from Covid-19. The plan will continue to be reviewed throughout the year in order to identify if further issues arise from Covid-19 related matters.

## 2. Assessing the effectiveness of risk management and governance

- 2.1 The effectiveness of risk management and governance will be reviewed, where appropriate, annually, to gather evidence to support our opinion to the Director, Pensions Committee, Board and Section 151 Officer. 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 and facilitate policy and decision making.

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 the 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.

The plan contained in this report is our assessment of the audit work required to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

#### 4. The assessment of assurance needs - identifying the Fund's objectives and the associated risks

- 4.1 Internal audit should encompass the whole internal control system and not limited to only financial controls. The scope of internal audit work should reflect the key objectives of the Fund and the key risks it faces.

The following are the Fund's Core Objectives:

- **P** Partnering for success
- **R** Responsible asset owner, employer and local community partner
- **I** Investing to increase capacity
- **D** Drive efficiencies and cost savings
- **E** Engage to improve outcomes for customers

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

The Fund has identified the following key risks which may potentially impact on its ability to achieve its objectives:

#### **WMPF Key Risks: extract from latest risk register**

##### **Pooling:**

- Transition timeline slips causing additional cost/ resource on the fund
- Investments not reflecting Funds investment strategy putting investment returns at risk
- Resourcing – insufficient resources to manage legacy assets
- Ineffective strategy or investment requirements leading to stalling with transition of assets and possible failure to deliver cost savings
- Stakeholder delay on key issues leading to ineffective decision making and partnership working
- Cost savings fail to be delivered - higher regularity and other costs, anticipated savings do not materialise

##### **Investments:**

- Fund not achieving investment returns in line with longer term strategic objectives
- Brexit Uncertainty
- Climate Change

##### **Finance:**

- Non-payment or receipt of monies due to the Fund

**Governance:**

- Change in government policy / LGPS reforms
- Fund resource and key main risks including failure to recruit and retain staff with the right experience, qualification and skill sets
- Outcomes from the McCloud and Sargeant court cases impacting on funding and resource where data remedy is required

**Operations**

- Failure to adhere to statutory regularity requirements
- Poor quality and / or late deliveries / upgrades by PAS provider leading to an inability to process member data creating backlog and /or delays

**Pensions Services**

- Failure to adhere to the Pensions Administration Strategy

## 5. The framework of assurance

- 5.1 The framework of assurance aims to satisfy an organisation that the risks to its objectives and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation. The assurance framework will comprise a variety of sources and not only the work of internal audit.

In addition, we work closely with our partner funds to ensure that the LGPSC Pool has an appropriate assurance framework. This includes membership of the Internal Audit Working Group.

We also work with the Fund’s external auditors to share knowledge and audit information.

### **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 calculation 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 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.

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

6.3 Included within the plan, in addition to audit days for field assignments are:

- a small 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 management meetings and committees etc.

## 7. Considerations required of the Pensions Committee, Board and senior management

Does the plan include all the areas 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

### **Resources required**

The audit plan will be delivered by the City of Wolverhampton Council's internal audit team.

### **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 and are sponsored to undertake relevant professional qualifications. 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 the Public Sector Internal Audit Standards.

### **Combined assurance**

We will work in conjunction with the company's external auditors and other assurance providers 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.

## 9. Proposed Audit Services Plan 2020 -2021

Audit Area	Audit	Risk Rating
Governance	<p>Risk Management</p> <p>To provide assurance that revised risk management arrangements and reporting are robust and fully reflect Fund operations. The review will include two audits:</p> <ul style="list-style-type: none"> <li>• Governance and Administration risks.</li> <li>• Investment risks</li> </ul>	High
Operations	<p>Cyber Security</p> <p>To review Fund procedures to ensure compliance with the Pension Regulator's new single code of practice. (this details that funds should not be reliant upon their administering authority's policy). Additionally, a review of operational security measures including working from home in a response to Covid-19.</p>	High
Operations / Finance	<p>Integrated Transport Authority / Main Fund merger</p> <p>To review the processes for the merger of the ITA with WMPF, ensuring adherence to the agreed project plan.</p>	High
Pensions Administration	<p>Guaranteed Minimum Pension Project – Reconciliations</p> <p>A review of processes to correct employee data following the completion of the GMP reconciliation exercise.</p>	High
Pensions Administration	<p>Covenants</p> <p>To ensure the Fund have a robust framework to monitor and adjust covenants in accordance with the triennial valuation.</p>	High
Operations	<p>Transfer Outs</p> <p>To review the controls and processes for members who select to transfer their pension out of the Fund.</p>	Medium
Finance	<p>Investments review</p> <p>Management arrangements for investments retained by the Fund</p>	Medium
Finance	<p>System access arrangements</p> <p>To ensure appropriate controls are in place to allow access and authorisation of transactions.</p>	Medium
<b>Other Related Internal Audit Work</b>		
Follow up Reviews	To review the implementation of agreed actions from the previous financial year (extended review for the Finance audits undertaken)	
Counter Fraud	To oversee the Cabinet Office's National Fraud Initiative exercise on behalf of the Pension Fund and any other work relating to counter fraud as requested by management.	

Contingency and Consultancy	Special projects, advice and assistance as and when required
Pensions / Board reports	The preparation of committee reports and attendance at committee
Management	The management of the internal audit function