

An aerial photograph of a city, likely Birmingham, showing a dense urban landscape with a mix of brick buildings, modern commercial structures, and parking lots. A semi-transparent text box is overlaid on the upper portion of the image.

West Midlands Pension Fund

Internal Audit Annual Report 2020-2021

1. *Introduction*

Our internal audit work for the period from 1 April 2020 to 31 March 2021 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. 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
- Internal compliance

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 2021.
- 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

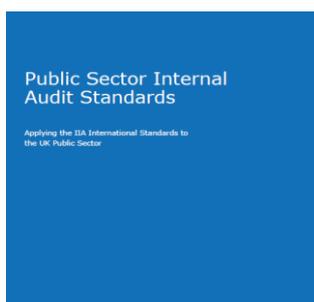
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

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 2020-2021.
- 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.

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. We discuss the report with managers and agree recommendations and target implementation dates.

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 2020-2021 financial year.

| Audits Completed | AAN Rating | Recommendations | | | | | Level of assurance |
|-------------------------------|------------|-----------------|-------|-------|-------|-----------------|--------------------|
| | | Red | Amber | Green | Total | Number accepted | |
| Cyber security | High | - | 3 | 6 | 9 | 9 | Satisfactory |
| Risk management - governance | High | - | - | 5 | 5 | 5 | Satisfactory |
| Risk management - investments | High | - | - | 4 | 4 | 4 | Satisfactory |
| GDPR | High | - | - | 7 | 7 | 7 | Satisfactory |
| GMP | High | - | - | 3 | 3 | 3 | Substantial |
| Transfers Out | High | - | - | 3 | 3 | 3 | Substantial |

Cyber Security

We reviewed the Fund's procedures to ensure compliance with the Pension Regulator's new single code of practice. A framework of controls governing cyber security was found to be in place. Main systems operate on a network provided by CWC which is subject to external reviews and accreditation. Advice and expertise was provided through CWC's IT Team, who also perform vulnerability scanning and penetration testing, provide reports and any remedial activities that need to be progressed.

Further, cyber risks are considered as part of risk management. However, we found that the cyber security policy was in draft format and required updating to reflect current arrangements. Further the service level agreement with CWC required review. Assurance regarding the security of external providers systems was not routinely obtained. Also, in accordance with the Pension Regulator's requirements, we recommended the development of a digital cyber map for the Fund's digital footprint which will identify where data travels (internally and externally) and is stored to determine vulnerabilities, the impact of breaches and the value of data to criminals. The establishment of a whole Fund wide incident response plan in liaison with CWC has also been agreed.

Recommendations were also made regarding system logon and permission rights, the development of a planned cyber security training and consideration of any insurance vulnerabilities.

All recommendations were accepted by Fund management and agreed implementation dates provided.

Risk Management – Governance

The Fund recently revised its approach to risk management and our review focused upon new procedures which were developed in order to ascertain compliance with CIPFA's publication *Managing Risk in Local Government Pension Scheme*. During the course of our work we confirmed that the operational approach was consistent with the publication, and risk management information was presented to Trustees. This included new risks, changes to risks and horizon scanning for potential new risks. The risk identification process used a range of sources to inform the risk process and was found to be well integrated into business activity.

However, we found that not all supporting documents and procedures had yet been developed. Overall, it was difficult to identify a "clear thread" regarding Risk Management across Fund documents. A risk management policy setting out the approach to risk across the Fund had yet to be prepared. Further, there was an absence of a framework document for non-investment activities to support the policy. All recommendations have been accepted by management.

Risk Management - Investments

The Fund has developed an Investment Risk and Assurance Framework, which identified the investment governance structure and how the Fund manage and monitor investment risks. This audit assessed the framework against key areas identified in CIPFA's publication *Managing Risk in the Local Government Pension Scheme*. We found a high level of knowledge demonstrated by staff regarding investment risks and appropriate risks were included in the Investment Strategy Statement.

However, the guidance had not been fully integrated into the framework, it was therefore difficult to evidence and assess the Fund's overall response to investment risks as stated in the CIPFA publication. Recommendations have been made and agreed to ensure the measures required by CIPFA are documented.

GDPR (General Data Protection Regulation)

This review sought assurance that the GDPR Requirements had been fully embedded within Fund procedures, including the effectiveness of the data champion role. From our review, we noted that the Fund had robust processes in place and had continued to make improvements around data protection and employees' understanding of the area.

Some enhancements were recommended, in particular, the Fund should complete all of the relevant Information Commissioner Office checklists, to assess overall compliance with all data protection regulations.

GMP (Guaranteed Minimum Pension)

We reviewed the procedures adopted for stage two of the process, ensuring a robust reconciliation and associated investigation of discrepancies was applied between members' records held on internal systems and the data provided by HMRC. We found appropriate evidence to confirm good practice in the management of the process.

This included the identification of external resources to assist in the delivery of the Stage 2 Reconciliation. Regular progress reports were received from the external provider and the contracted service was delivered at the cost agreed. Further, controls were evidenced to ensure

that the external provider did not make incorrect decisions on behalf of the Fund. Also, the Fund received case samples to check and approve where a reconciliation proposal was made by the provider.

Three minor administrative recommendations were agreed with management to further enhance procedures.

Transfers Out

Our review found that procedures for dealing with Transfer Out requests were being dealt with in accordance with the Voluntary Code for Combatting Pension Fraud produced by the Pensions Scam Industry Group. Processes and procedures in place met best practice advice. Training and awareness were taken very seriously and were updated to take account of the common warning signs of a potential scam. Regular checks were made on the Financial Services Register (FCA) and The Pension Regulators' (TPR) website for warning signs of a scam. There was also guidance and warning information on the Fund website. Further, the Transfer Out election member letter had been updated to include the additional risks since Covid-19. We identified some minor issues and made appropriate recommendations to further enhance risk control and operational efficiency.

Follow up of previous recommendations

We also continue to monitor the implementation of previous key recommendations, and an annual review of agreed key actions from reviews is undertaken and reported to management. From our review, we have updated two recommendations where issues have not yet been addressed. It is acknowledged that management were aware of these issues but, due to the unprecedented year resulting from the Covid-19 pandemic and the additional work this caused the issues that remain outstanding were as follows:

- Accounts Receivable – an updated debt policy was required which should also provide an approach for dealing with older debts.
- Treasury Management – a policy to support the management of treasury management activity was also required.

Progress on the implementation of these recommendations will be reviewed as part of ongoing internal audit work.

LGPSC Assurance Work

LGPSC (Local Government Pension Scheme Central) is the company owned by WMPF and partner funds, to manage the pooled assets of the eight midlands Local Government Pensions Schemes. As a member of the Internal Audit Working Group, the following work has also been completed during the year.

| Work Completed | Details |
|--|---|
| LGPSC Ltd Internal Controls Progress Report. | A review of LGPSC Ltd self-assessment of the design, implementation and operating effectiveness of controls within the company. |
| AAF review (Audit and assurance faculty) | Review of the company interim AAF 01/06 report produced by independent external auditors. This did not identify any significant issues. |
| Review of the LGPS Governance Report | We reviewed the report produced by Shropshire County Council which assessed the governance arrangements for the pool. A "Good" level of assurance was provided. |
| 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. Fund data was submitted to the NFI in October 2020 and results returned in January 2021, we are currently working with the Fund to investigate the results and ensure appropriate action is taken.

Consultancy and advice work

In addition to the planned audits completed in the year, we have also been involved in consultancy and advice projects, and as part of our ongoing support to the Fund, we completed 23 credit checks using Credit Safe LTD to review individual organisations financial stability when seeking admission to the Fund.