

West Midlands Pension Fund Internal Audit Annual Report 2021-2022



Introduction

Our internal audit work for the period from 1 April 2021 to 31 March 2022 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, amongst others, 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, could include:

- The work of the External Auditors (Grant Thornton)
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- 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 West Midlands Pension Fund, we are required to provide the Executive Director, Pensions Committee and Pensions 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 2022.
- 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 Risk Register.

Internal Audit Opinion

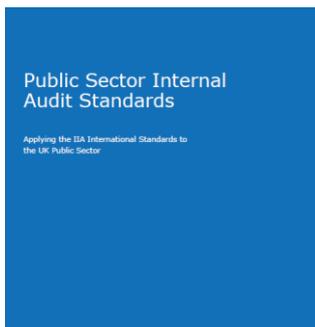
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

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 2021-2022.
- 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,

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible employee is asked to respond to the report by completing and returning an action plan. This response shows 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. The opinion provided will be one of the following options:

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Summary of audit reviews completed

The following audit reviews were completed during the 2021-2022 financial year.

Auditable area	Recommendations					Level of assurance
	Red	Amber	Green	Total	Number accepted	
Covid-19 Response	-	-	3	3	3	substantial
Business Continuity	-	-	5	5	5	satisfactory
Pensions Administration Strategy	-	1	4	5	5	satisfactory
People Management	-	-	3	3	3	substantial
Tracing Agents	-	-	4	4	4	satisfactory
Payroll	-	-	1	1	1	substantial
Employer Covenants	-	2	2	4	4	satisfactory
Contributions Monitoring	-	2	5	7	7	satisfactory
Payment Authorisations	-	1	3	4	4	satisfactory

Key findings and recommendations

Covid-19 Response

An audit of the response to Covid-19 was undertaken. The audit referred to guidance from industry recognised organisations, such as The Pensions Regulator (TPR) and the Pensions Administration Standards Association (PASA). Three minor recommendations were made and agreed with management around the recording of actions, feedback and guidance within minutes.

Examples of good practice were noted, including:

- The Fund had representation on the Council's City Strategic Coordinating Group and the City Tactical Management Group.
- Clear division of work and responsibility areas were assigned to the senior management team, with increased frequency of meetings.
- A high-level review of the early guidance issued by TPR and PASA confirmed that the Fund did provide the priority services highlighted.
- A range of actions were taken to address operational issues caused by Covid-19 (for example, the call centre remained open, frequently asked questions were added to the website, staff were redeployed to areas where increased workflows were identified).
- The Government's Notify service was invoked as an option to communicate with staff.
- The well-being of staff was considered, evidenced by employee surveys, regular briefings and signposting to Mental Health First Aiders.
- Monitoring of key information was undertaken. (For example, UPM workflow monitoring, volume of incoming post, telephone call centre monitoring).
- Covid-19 risks were reported to Pensions Committee
- Management were aware of the need to undertake a lessons learnt exercise from the Covid-19 response.

Business Continuity

An audit of Business Continuity was completed. The audit referred to industry recognised guidance such as the Business Continuity Institute, on how the business continuity framework should be implemented, monitored and reviewed.

We identified a small number of administrative issues to improve the overall provision of business continuity within the Fund. A key issue was the need to establish a stronger working relationship with the Council's Resilience team.

During our review we identified examples of good practice relating to:

- Annual business continuity awareness training was delivered to all employees.
- A business continuity plan for Fund activities was in place.
- Within the business continuity plan, owners for response objectives were stated, together with a communications strategy, and required resources identified.
- Recovery times for Fund activities were also stated.

Pensions Administration Strategy

An audit review of the arrangements in place to monitor performance measures within the Pensions Administration Strategy (PAS) was undertaken. As employer numbers continue to increase, with over 780 employers at the time of audit, the PAS has a significant role in assisting the Fund deliver services.

We identified one amber issue, relating to the need for a clear link between duties to be undertaken as detailed in the PAS and monitoring undertaken by the Fund. We noted that the PAS could be used as a key document to monitor both employer and Fund performance. The provision of automated reporting on key PAS duties is essential due to the numbers of scheme employers and limited Fund resources.

During our review we identified the following examples of good practice:

- The Pension Administration Scheme (PAS) had been recently reviewed and presented to the Pensions Committee.
- There was a clear allocation of duties for scheme employers and the Fund.
- Regular reporting took place to both the Pensions Committee and Board on Fund performance.
- Internal reporting was also evidenced to SMT on scheme employers' performance.

People Management

An audit review of the accuracy and validity of data available to monitor the Fund's workforce planning and people development strategy was completed. The 'Our People Strategy' aims to ensure people felt confident and effective in their roles to help drive improved efficiency and productivity.

We identified that Fund employees remain the responsibility of the Council and the Fund continues to develop its people strategy to support the development of its workforce, noting its priority to become a people development champion. In consideration of the specific and technical roles required to support the pension service, the Fund has developed its own approach to supporting and appraising its officers. While noted as distinct from the Council approach, we have acknowledged the robustness of the Fund's support for its people. It was agreed that this issue would be explored with the wider Council Human Resources team.

We also noted many areas of good practice regarding employee engagement, performance monitoring, development opportunities and wellbeing initiatives.

Tracing Agents

An audit of the methods used to trace members of the Fund was undertaken. The Fund relies on members and their representatives to notify any changes in circumstances such as changes of address or notification of a death. If, for example, a member changes address and does not notify the fund, communication may become difficult and in the case of a deferred member, their pension may not be paid or they may experience delays.

To satisfy the Pensions Regulator, the fund is required to demonstrate that reasonable efforts have been made to keep records up to date.

We identified good practice associated with maintaining accurate member contact details and mortality screening. This included:

- The use of a specialist third party to provide a member tracing and mortality services.
- Compliance with GDPR requirements, by the publication of tracing methods on the Fund website.
- Quarterly checks of deferred members to validate and update their contact details in preparation for the Pension Fund contacting them regarding commencement of their pension.
- the pension payroll is checked against the Government death records.
- Annually all pensioners living overseas are required to provide evidence that they are alive. Where a satisfactory response is not received, payments are suspended.

- Every two years the Pension Fund participates in the Cabinet Offices National Fraud Initiative data matching exercise which matches the Pensions Payroll to the DWP deceased records.

We noted some administrative issues to improve the overall provision of the tracing and mortality screening arrangements. These included periodic market testing of external tracing providers, improved reporting of results and the development of a terms of reference for the review panel which considers actions for hard to trace members

Payroll Review

A review of the controls in place for the monthly payroll was undertaken. We found robust, embedded procedures around:

- the establishment and accurate payment of new starters and leavers
- the appropriate processing of amendments to payroll data
- routine payroll runs were subject to validation checks
- overall performance monitoring was in place via the use of key performance indicators

A review of user access identified that there was a high number of internal super users associated with the payroll system. This is due to payroll forming one element of the Fund's main administration system (UPM). Access for super users cannot be restricted to specific functions. For payroll, this allows access to initiation, processing or completion/authorisation for processes relating to individual members. It was acknowledged that, as a compensating control, processes required the involvement of two users and leaves a documented audit trail. We recommended that that super user access is regularly reviewed. This was agreed by management.

Employer Covenants

The audit reviewed how covenants were reviewed and monitored. We evidenced appropriate controls around:

- governance and monitoring arrangements were in accordance with the Funding Strategy Statement. Reports were presented to Pensions Committee regarding the employer watchlist, valuations and covenants.
- Guidance on how to use the employer covenant monitoring spreadsheet had been established. Further, the spreadsheet was updated regularly and reviewed by the external covenant advisors.
- Trend analysis from covenant ratings was retained on a yearly basis.

However, we noted that there was an incomplete trail of supporting evidence from the employer covenant monitoring spreadsheet to final watchlist / triennial covenant outcome list. Further, there was limited evidence to support follow-up actions and engagement activities taken as a result of the outcomes from covenant monitoring. Both issues have been discussed with management and appropriate actions agreed.

Payment Authorisations

An audit of payment controls assessed the controls and authorisations for payments, including investment transactions, operational payments sourced from UPM (such as death grants, transfers out), and invoice payments. The audit focused on large value payments (those over £100,000).

We noted that operational practices for invoice processing, investment and treasury transactions required heads of service or a senior finance manager to approve the payment/transaction, with at least two independent employees involved in the payment of all transaction types. Further, procedures for processing payments from the Accounts Payable system in Business World have been documented.

However, some payments initiated via the administration system (UPM) are considered part of systems processing and subject to workflow routine approvals. Officers therefore may process high value payments without the requirement for specific senior manager approval e.g. death grants. These were not included within any delegated framework.

It is acknowledged that the Fund is currently undertaking separate transformation work projects with regards to finance procedures and is moving to a new pension management software system. Actions were agreed with management that issues identified as part of this audit will be addressed as part of the project.

Contributions Monitoring

Our audit reviewed procedures developed to monitor and reconcile monthly and annual returns regarding contributions to ensure they provide adequate controls.

We confirmed that remittance advices and cash receipts were appropriately monitored. Also, an escalation process was in place for the chasing of late or non-receipts. Regular activity reporting in line with established key performance indicators also occurred.

Two issues were noted, the current manually intensive contributions monitoring system was developed as no other mechanism was available to undertake the task. From testing undertaken, the system worked but required significant staffing resources and knowledge, with an over-reliance on the expertise of the Finance Manager. Further, the systems required input from both financial and operations teams. However, there had not been a formally recorded allocation of responsibilities covering the contributions' function.

Both recommendations were agreed with management and issues were to be addressed as part of the transformation project which had been established to transition to the new pensions management software system.

On-going assurance work

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.

Further, we are members of the LGPS Central pool internal audit working group. In conjunction with our partner fund's internal auditors, we contribute to the internal audit programme of work.

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 was undertaken and reported. No areas of concern were raised as a result of the follow up programme.

Consultancy and advice work

In addition to the planned audits completed in the year, we have also been involved in consultancy and advice including the provision of advice to the finance team as they introduced new working arrangements. Further, as part of ongoing support to the Fund, we completed 25 credit checks using Callcredit to review individual organisations financial stability when seeking admission to the Fund.