

West Midlands Pension Fund
Internal Audit Annual Report
2022-2023

Introduction

Our internal audit work for the period from 1 April 2022 to 31 March 2023 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 His 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 2023.
- 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

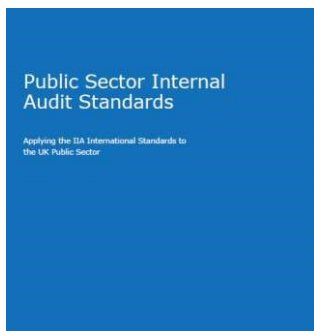
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

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 2022-2023.
- 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 2022-2023 financial year.

| Auditable area | Recommendations | | | | Level of assurance |
|----------------------------------|-----------------|-------|-------|-------|--------------------|
| | Red | Amber | Green | Total | |
| Employer engagement | - | - | 1 | 1 | Substantial |
| Data management - McCloud | - | - | 1 | 1 | Substantial |
| Governing body- delegations | - | - | 8 | 8 | Satisfactory |
| Past service deficit monitoring | - | 1 | 4 | 5 | Satisfactory |
| Bank account control | - | 3 | 4 | 7 | Satisfactory |
| Contracts register establishment | - | - | - | - | N/A - Consultancy |

Key findings and recommendations

Employer engagement

An audit of employer engagement was undertaken which focused on whether the Fund was delivering its employer engagement strategy and how the engagement of employers is monitored. The Fund's employer engagement strategy was examined against other LGPS funds where appropriate. One minor enhancement was made, to clarify the inter-relationships between documents relating to employer engagement.

Examples of good practice were noted, including:

- The Fund's Communication Policy included all LGPS regulatory requirements.
- With regard to the Communication Policy, Customer Engagement Strategy, Customer Engagement Plan and Employer Engagement Roadmap:
 - The documents were approved by Pensions Committee.
 - Employers were informed about them through email and an employer briefing note.
 - They were published on the Fund's website.
- An action log had been established to monitor feedback from employers.
- An annual survey of employers had been undertaken, with feedback shared with employers.
- Fund responsibilities stated in the Pensions Administration Strategy with regard to employer engagement were monitored – through monitoring the Customer Engagement Plan, and through KPI reports presented to senior managers. Testing of a sample of five scheduled events confirmed that in four cases that they had taken place. Where the event did not take place, it was appropriately recorded on monitoring records that it had been postponed.
- Regular reports on employer engagement were presented to Pensions Committee and Board. Testing confirmed that updates had been presented to all Pensions Committee and Board meetings held over the last twelve months. A similar level of transparent reporting was not identified with two other comparable LGPS funds.
- Senior managers received reports through KPI reporting, monitoring of the compliments and complaints registers, which include employer engagement activities.
- A benchmarking exercise had been undertaken by CEM, an independent specialist and pension administration benchmarking and research organisation, noted the Fund's good work regarding employer engagement. It highlighted that the Fund used more service targets and held a higher number of meetings with employers than its peer group.

Data management - McCloud

A review of the arrangements for the data management project regarding the McCloud judgement, to date, was completed. The McCloud judgement identified that there was age discrimination for some members as a result of public service pensions services reforms in 2014 and 2015. This judgement applied to LGPS schemes. The audit reviewed the approach that the Fund has undertaken in addressing the data collection exercise, with reference to the Scheme Advisory Board (SAB) publication "McCloud data collection exercise – guidance for administrators" as appropriate. The Fund estimates that approximately 75,000 members are in scope for review, but it is anticipated that the review will result in an increased pension for only a small percentage of these members.

At the time that the audit was undertaken, no significant issues were identified regarding the internal management arrangements of the McCloud project. However, this does not necessarily guarantee the successful delivery of the McCloud project, as the Fund awaits relevant regulations to be issued. This will be dependent on the continued deployment of good practices and controls currently in place; together with the impact of other external factors that the Fund has limited control over but is keeping under review through the risk register.

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

- Documentation which presented three delivery options for the McCloud project to the Programme Board was observed, and a preferred option was approved.
- Project governance was established through the Programme Board, Project Team and supporting workstream groups.
- A project risk status and a risk register were established and have been reviewed regularly.
- The Fund adhered to the advice issued by the Scheme Advisory Board (SAB) for the data collection exercise. It was also noted that a member of the Fund's Senior Management Team was part of the SAB team which issued the guidance.
- The Fund was involved in establishing standard templates for data collection with the SAB and has used these in practice.
- Key workstreams were established, including communication, to ensure employers were informed and supported during the data collection exercise.
- Monthly highlight reports were produced which provide regular detailed statistics on employer submission, files in process, and completions.
- An approach on how to deal with non-responsive employers had been established.
- Reporting / updates to all key parties - Programme Board, trustees, employers and members - had been undertaken.

Governing body - delegations

An audit of governing body delegations was undertaken. The review examined the responsibilities and operational arrangements for the delegations to the Fund's governing bodies (Pensions Committee and Pensions Board), with reference to the Pensions Regulator (tPR), the Scheme Advisory Board (SAB), CIPFA and other comparable LGPS pension funds, as appropriate. No significant issues were identified. However, we did identify a number of minor issues mainly relating to the completion of work to demonstrate compliance with tPR, SAB and CIPFA's requirements. It is acknowledged that the Fund's work in this area had been affected by the delay in the publication of finalised requirements.

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

- Responsibility for those acting as the 'scheme manager' had been formally defined, with the Pensions Committee been allocated this responsibility in its terms of reference.
- A Pensions Board had been established.
- Both governing bodies had established quorums.
- The Fund had established a representation policy.
- Gap analysis had been undertaken by the Fund for tPR singular code of practice, SAB good governance review and CIPFA's LGPS knowledge and skills framework.
- Detailed records on individual committee/board members and records of what training, linked to CIPFA requirements, were maintained.
- Transparent reporting process through the Pensions Committee and Board, and also through the minimal use of presenting reports with restricted access.

Past service deficit monitoring

An audit review of past service deficit monitoring was undertaken. In accordance with LGPS Regulations 2013 (62), the Fund collects a secondary contribution rate (past service deficit) from employers, in accordance with the rates and adjustments certificate issued by the valuer every three years. The audit examined what controls the Fund had to ensure the amount collected is accurate and paid in a timely manner, and what escalation procedures were in place in the event of non-payment. The value of past service deficits (PSD) detailed in the valuation report for the years 2020/21 to 2022/23 was £354.5M.

We noted one amber recommendation which related to the over-reliance on spreadsheets to monitor PSD, with limited controls to prevent/identify errors. Some minor issues were raised, including the clarification of employer responsibilities, and additional reconciliation work.

Examples of good practice identified were as follows:

- Support to understand the results of the valuation process, which includes a statement of amounts due as PSD was provided to employers through workshops, individual meetings and answers to frequently asked questions.
- From a sample of ten employers, it was confirmed that:
 - Payments were made and allocated on a timely basis. It was noted in particular that the allocation of payments since September 2022 had been undertaken in a shorter timescale.
 - Payments were accurate. Where an early payment had been made, the discount had been accurately calculated and employers had paid the balance due before the relevant 30 April (three employers). For two district authorities who had made a prepayment, there was a minor discrepancy resulting from roundings, but this was less than 0.07% of the PSD value due and is not considered material. Where the employers had not made prepayment, all five employers had either made regular monthly payments (four employers) or paid an invoice raised (for one non-active employer) which either resulted in part or full payment of the amount due.
- The Finance team added notes to payments awaiting allocation within Business World.
- Regular monitoring of the current PSD due was undertaken and the Fund had a clear view of total balances outstanding and which employers these relate to.

Bank account control

An audit of the control of operational bank accounts was undertaken. The audit reviewed the operational NatWest and HSBC bank accounts used by the Fund and examined the management of the accounts. The review also considered the cashflow forecasting processes used at the Fund. Reference was made to the Fund's Treasury Management Policy where appropriate.

Three amber issues were identified, arising from the following:

- Some key parameters in treasury management policy were not detailed, with the monitoring of compliance on other parameters needing to be formalised.
- The liquidity cash balance of £50M for operational accounts was exceeded by investment activity on occasions.
- Whilst in year reconciliations of the ICON system and HSBC are complete there are outstanding historic differences to resolve.

While we highlighted the above, we were able to provide a satisfactory opinion rating as the Fund was already aware of these issues and was in the process of addressing them. A number of minor issues, including suggestions to amend the format of the cashflow spreadsheet and improvements to monitoring records, were also made.

Examples of good practice were noted, including:

- The Fund was undertaking a review of all its bank accounts to assess their need, determine their purpose, and update signatory arrangements where required. It was also in the process of assigning responsibilities for duties across Finance, Fund accounting and Investments.
- Cash needs were monitored by Finance and communicated to the Investment team.
- Access controls in both banking partners required dual authorisation of payments.
- Access to the banks was removed as employees leave or change roles. At the time of audit, testing confirmed that all employees with access to the banks were current employees with appropriate access.
- Smart devices to access the bank were retained by the Fund in a safe and were checked annually, plus when devices were returned/issued to employees.
- Regular reconciliations of bank accounts were undertaken on a monthly basis.

On-going assurance work

As part of ongoing support to the Fund, we completed 30 credit checks using CreditSafe to review individual organisations financial stability when seeking admission to the Fund.

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 LGPSC 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.