

NOT PROTECTIVELY MARKED



## Internal Audit Annual Report – 2015/16

## Introduction

Our internal audit work for the period 2015/16 was carried out in accordance with the 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 the evidence that underpins the Fund's Assurance Framework, which supports the Annual Governance Statement. 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
- Statutory policies and plans
- The work of the Fund's Compliance Monitoring Team
- Other pieces of consultancy or third party work designed to alert the Fund to areas of improvement

Internal Audit is 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. 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.

### **Overall Assurance**

As the providers of internal audit to the Fund, we are required to provide the Managing Director, Strategic Director and Section 151 Officer with an opinion on the adequacy and effectiveness of the 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 to the Managing Director, Strategic Director and Section 151 Officer is reasonable assurance that there are no major weaknesses in the Fund's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken during 2015/16.
- 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.

## 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 in the paragraph 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:

- The need for management to plan appropriate and timely action to implement our and other assurance provider's recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed later in this report.

## Compliance with the Public Sector Internal Audit Standards

Public Sector Internal  
Audit Standards

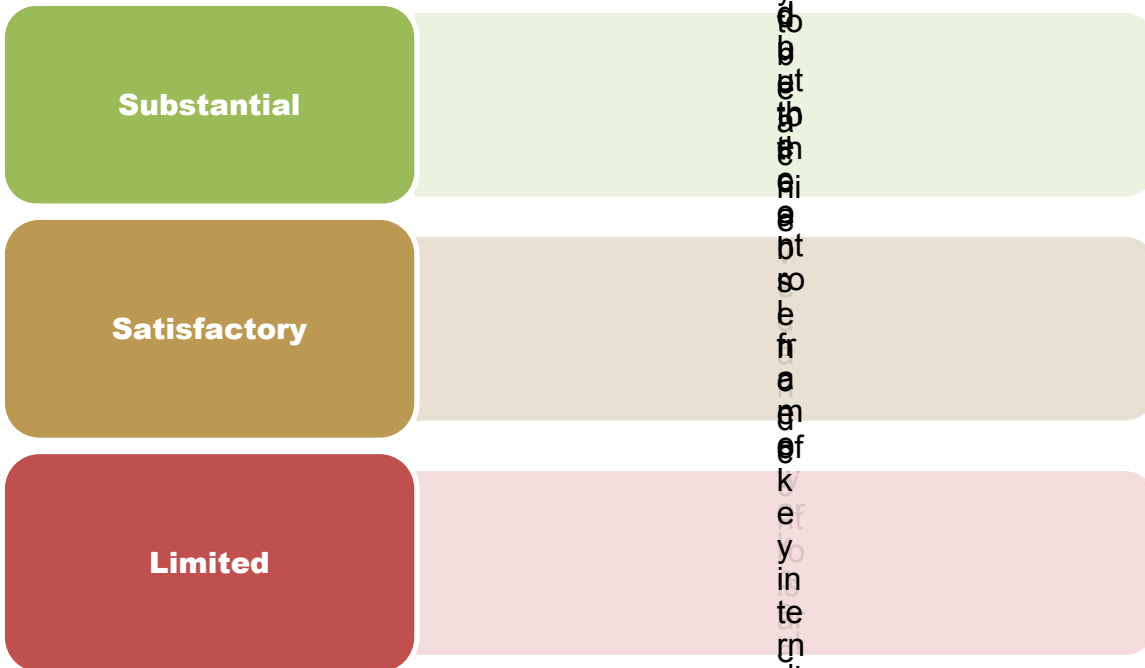
Applying the IA International Standards to  
the UK Public Sector

Internal Audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

## Summary of work completed

A detailed written report and action plan is prepared and issued for every review. 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.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:



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The following internal audit reviews were completed during 2015/16

Systems Reviews		Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Review of Pensions Administration Strategy		-	3	1	4	4	Satisfactory
Admitted Bodies, Guarantor Scheme		-	2	4	6	6	Satisfactory
Asset Allocation Review		-	-	3	3	3	Substantial
Assurance Mapping		NA	NA	NA	NA	NA	NA
Business Continuity / Resilience Management Arrangements		-	2	5	7	7	Satisfactory

Key Financial Systems		Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Members Payroll		-	1	-	1	1	Satisfactory
Income and Expenditure		-	-	2	2	2	Substantial
Benefit Calculations		-	1	-	1	1	Satisfactory
Reconciliation of Members Contributions		-	-	-	-	-	Substantial

### Follow up Reviews completed in 2015/16

Early Retirement Costings - all recommendations had been satisfactorily implemented.

Overall Governance and Risk Management Procedures – satisfactory progress was being made in implementing recommendations.

Key Financial Systems - satisfactory progress was being made in implementing recommendations.

### Corporate / Special Requests

In addition to Pension Fund planned work, We also undertake corporate work on behalf of the Fund as part of the City of Wolverhampton audit plan. This includes adherence to corporate policies and procedures such as Payroll, Human Resources, Finance Arrangements, ICT, Further, we continue to act as the Fund's corporate fraud contact. We have also provided advice and consultancy to the Fund on a number of issues throughout the year, including:

- Provision of support / evidence for the Information Governance accreditation charter mark awarded by the Chartered Institute of Public Finance (CIPFA).
- Development of a counter fraud approach.
- Assistance implementing and embedding data security procedures.

## Key issues arising during the year

### **Review of Pensions Administration Strategy (PAS)**

The PAS is an LGPS requirement and should detail arrangements for communications, performance measurement and the circumstances when additional charges can be made to employers. The audit review identified that appropriate procedures were in place at the Fund. However, some performance targets established in the PAS were either not being or unable to be measured. Limited information regarding the performance of scheme employers was made available and enforcement action for poor employer performance has been limited. Recommendations made have been accepted by management.

### **Admission Bodies, Guarantor Scheme**

An audit of the controls in place to ensure guarantors are obtained for admission bodies was undertaken. Without the security of a guarantor, any financial failings could potentially result in unpaid pension liabilities which would be charged to all remaining scheme employers in the Fund. Our audit confirmed that although the Fund had robust procedures to ensure that new admissions were appropriately guaranteed, a number of bodies were admitted prior to current regulations which posed a risk to the fund as they did not have a guarantee. Also, it was noted that when an employer's admission agreement was terminated, there were delays in issuing invoices and receiving payment for associated termination costs. Appropriate recommendations have been made and Fund management are liaising with Legal services to strengthen arrangements.

### **Asset Allocation**

This audit sought assurance that asset allocations are in accordance with the Statement of Investment Principles and Funding Statement Strategy. Further, allocations are transparent; and subject to monitoring. We identified three issues to improve the transparency of information, amendments to the Funding Statement Strategy and the Statement of Investment Principles and the responsibilities of the internal investment team regarding reviewing the asset allocation.

### **Assurance Mapping**

An assurance map was developed with the assistance of the Governance Team. This was based on the current top ten risks facing the Fund and demonstrates what assurance was available to mitigate the risks and where the fund remained exposed. It is anticipated that this document will be embedded in the Fund and form part of the overall assurance framework.

### **Business Continuity / Resilience Management**

We reviewed arrangements to ensure that the Fund had access to an appropriately skilled and resourced emergency planning and continuity function and aligns with City of Wolverhampton plans. We identified two issues relating to the lack of clarity for the management arrangements for business continuity between the Fund and the City of Wolverhampton, and the absence of a business impact analysis.

### **Key Financial Systems**

On an annual basis, we undertake a review of the main financial systems to provide assurance that procedures are operating effectively, this year we reviewed:

### **Members Payroll**

There was a robust system of controls for the processing of payroll. However, key performance indicators (KPIs) and processing targets had not been achieved consistently throughout the year. At the time of our review there were two areas with a high volume of unprocessed records relating to the finalisation of a deceased members pension and notifications indicating an unexpected change.

### **Income and Expenditure**

Testing on a sample of portfolio transactions was undertaken to ensure that appropriate controls are applied to income and expenditure. This confirmed that sound procedures had been adopted. Two recommendations were made regarding administrative issues which have been implemented by management.

### **Benefit Calculations**

Testing confirmed that robust controls are in place for the processing of benefit calculations. However, issues were identified concerning the timely completion of calculations. A recommendation has been made to establish an action plan to identify the main underlying contributory factors causing the delays and how these can be addressed.

### **Reconciliation of Members Contributions**

This audit reviewed the procedures for updating and reconciling internal records and the general ledger. Many improvements to procedures were noted during the year, including the use of automatic data uploads. No further recommendations were suggested.

### **National Fraud Initiative**

We co-ordinate the Cabinet Office's National Fraud Initiative (NFI) data matching exercise on behalf of the Fund. This involves matching Fund records to DWP data, deceased records, and payrolls. The latest matches' reports were reviewed and two confirmed matches identified. Action is being taken to recover overpayment of pensions. A further 295 possible matches have also been highlighted and work is underway to confirm if any other overpayments have occurred.

### **Financial Appraisals**

Where an organisation is seeking admitted body status to the Fund, a financial appraisal is completed (the purpose of which is to establish whether the organisation will or will not be able to meet its financial obligations to the Fund). We completed 19 such appraisals on behalf of the Fund during 2015/16. The financial appraisals provide a business failure score rating from 1 to 100, with 1 being the highest risk and 100 the lowest. Where appropriate, recommendations are made to obtain either a bond or guarantee from the organisation.