



West Midlands Pension Fund

## **Internal Audit Plan 2018-19**

## Index

-	A quick guide to the audit and assurance planning process
-	Glossary of Terms
<b>1</b>	Introduction
<b>2</b>	Assessing the effectiveness of risk management and governance
<b>3</b>	Assessing the effectiveness of the system of control
<b>4</b>	The assessment of assurance needs methodology
<b>5</b>	The assessment of assurance needs
<b>6</b>	Identify the audit universe
<b>7</b>	Developing an internal audit plan
<b>8</b>	Considerations required of the Pensions Committee and Directors
<b>9</b>	How the internal audit service will be delivered
<b>10</b>	The internal audit plan

# A quick guide to the audit and assurance planning process

## Step 1- Audit universe/auditable areas

Identify the audit universe (i.e. a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the Fund's ability to deliver its objectives. Then, identify if we can gain assurance that any of these risks are being managed adequately from other sources of assurance.
- Key Financial Systems - work undertaken in close liaison with the external auditors, in order to help inform and support the work they are required to undertake.
- Areas where we use auditor's knowledge, management requests and past experience etc.



## Step 2 – Ranking

Where appropriate score each auditable area as a high, medium or low assurance need using the CIPFA scoring methodology of materiality/business impact/audit experience/risk/ potential for fraud.



## Step 3 – Three year cycle

List the likely medium and high assurance need themes and/or areas  
High need themed areas will be reviewed annually, medium need usually once in a three year cycle, while a watching brief will remain on the low needs.



## Step 4 - Next Year's Plan

List the themes and where appropriate the types of work that will be undertaken in 2018-19 in the internal audit plan.

# A glossary of terms

## Definition of internal auditing

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.

## Governance

The arrangements in place to ensure that the Fund fulfils its overall purpose, achieves its intended outcomes for users and operates in an economical, effective, efficient and ethical manner.

## Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the Fund's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the Fund and the reporting of financial management
- the performance management of the Fund and the reporting of performance management.

## System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

## Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

## Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks
- identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e. through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

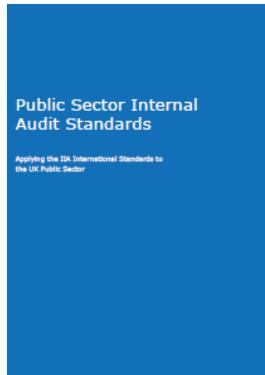
## Pensions Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

## Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the Fund's policies, processes and controls and the second being managers' own checks of this first line.

## Internal Audit standards



The internal audit team comply with the standards as laid out in the Public Sector Internal Audit Standards.

## Introduction

- The purpose of internal audit is to provide the Directors and Pensions Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Fund's agreed objectives. 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.
- The purpose of this document is to provide the Fund with an internal audit plan, based upon an assessment of its assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the Fund which are assessed as generating the greatest risk to the achievement of its objectives.

## Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Directors and the Pensions Committee. 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.

## Assessing the effectiveness of the system of control

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 within 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.

## Assessment of assurance needs methodology

- Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the Fund and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the Fund's objectives.
- Activities that contribute significantly to the Fund's internal control system, and to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the Fund over the reliability of its system of control in an effective and efficient manner.

We have undertaken our assessment using the following process:

We identified the core objectives of the Fund and, where available, the specific key risks associated with the achievement of those objectives.

We then identified auditable themes and areas that impact significantly on the achievement of the control objectives.

We assigned assurance need values to the auditable themes and areas, based on the evidence we obtained.

The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2018/19 financial year and is detailed at the end of this document.

## The assessment of assurance needs - identifying the Fund's priorities and the associated risks

The following are the Fund's goals:

- To be a leading performer in the LGPS sector.
- To achieve target investment returns.
- To ensure the solvency of the Fund and its ability to pay pensions.
- To provide excellent customer service.

The Fund has identified the following top ten strategic risks as potentially impacting upon its ability to achieve its key priorities:

- The pensions administration strategy (PAS) is not complied with.
- Orphaned liabilities and covenants.
- Inaccurate data for calculations.
- Guaranteed minimum pensions reconciliation.
- Future liabilities increase.
- Currency exposure.
- Data security and data quality.
- Lack of trustee independence.
- Change in government policy and LPGS reforms.
- Non-payment or receipt of monies due to the fund.

## Identifying the “audit universe”

- In order to undertake the assessment of assurance need, it is first necessary to define the audit universe for the Fund. The audit universe describes all the systems, functions, operations and activities undertaken by the Fund. Given that the key risk to the Fund is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the Fund, as identified above, and the management objectives above. These auditable areas include the control processes put in place to address the key risks.
- In addition to this, there are also common systems and functions which are generic to all areas, along with a number of mandatory reviews. Where deemed appropriate they may also be included in the audit universe set out in detail at the end of this document.

## Developing an internal audit plan

- 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.
- 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 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.
- This exercise builds on and supersedes previous internal audit plans.
- Included within the plan, in addition to audit days for field assignments are:
  - a contingency allocation, which will be utilised for example, 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, used for management, quality control, client and external audit liaison and for attendance at meetings and Committees etc.

## Considerations required of the Pensions Committee and the Directors

- Are the objectives and key risks identified consistent with those recognised by the Fund?
- Does the plan include all the themes 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?

### Quality assurance

All audit work undertaken is subject to robust quality assurance procedures as required by relevant professional standards. These arrangements are set out in the division's standards manual and require that all working papers and reports are subject to thorough review by professionally qualified accountancy staff.

## How the internal audit service will be delivered

### Staffing

The audit team follow the City of Wolverhampton Council's core behaviours. They are recruited, trained and provided with opportunities for continuing professional development. Employees are also 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.

## Our Core Behaviours

**P** Put customers first - *be customer focused*  
We deliver for our customers, satisfying their needs and empowering employees to do the right thing.

**R** Raise the profile of the city - *be positive*  
We are confident advocates for the city and the council. We are positive about what we do and work actively with our partners to build confidence.

**I** Inspire trust and confidence - *be open*  
We value each other's contribution, empathise with colleagues, are self-aware and remain open in difficult situations. We are flexible and open-minded in our approach. We listen and respond to new ideas.

**D** Demonstrate a can-do and tenacious attitude - *be a change agent*  
We take the initiative, take ownership of problems and see them through, challenging where appropriate and acknowledge uncertainties. Importantly we will be evidence-led in our decision-making.

**E** Encourage teamwork - *be a team player*  
We work as one council, sharing ideas, each other's priorities and problems. We work together to develop shared, sustainable solutions to complex problems.

### Resources required

It is estimated that approximately 140 internal audit days (including fraud, assurance and contingency work) will be required to deliver the audit plan.

## City of Wolverhampton Council's Audit Service

The City of Council's Audit Services also provide the internal audit service for the following clients:



Wolverhampton Homes



**WV Active**

## The internal audit plan 2018-19

The following reviews and associated services will be delivered:

Auditable Area	Purpose	Risk Rating
General Data Protection Regulations	An operational review of compliance with the new regulations which commence in May 2018.	High
Trustee Governance Arrangements	A review of compliance with regulatory requirements including conflict of interest, attendance, training needs assessment, member conduct.	Medium
Compliance Programme Review	A two-part audit examining revised arrangements for financial and regulatory compliance programme.	Medium
Annual Benefits Statements	A review of procedures for the accurate and timely issue of annual benefit statements.	High
Payroll	A full system review of payroll processes, including starters, leavers, beneficiary pensions, payment confirmation.	Medium
Transfer of assets	A review of arrangements for the transfer of assets to LGPS Central.	High
Treasury Management	A review of procedures for the management of cash held by the Fund.	High
Members Communications	A review of Fund communications with members, including guidance stated by The Pensions Regulator and the Scheme Advisory Board.	Medium

Pensions Administration Strategy	A review of the updated PAS, including the effectiveness of the introduction of fines to employers.	High
GMP Reconciliation	A review of the final project stages in preparation for the HMRC deadline	High
Key Financial Systems Reviews	A review and targeted sample testing key financial controls within main systems to ensure they are operating effectively throughout the year.	Medium
Follow up Reviews	To follow up key recommendations made across the fund in 2017-18.	Medium

Corporate Activities	
Counter Fraud	In accordance with the Cabinet Office requirements, we also lead on the National Fraud Initiative's data matching exercise.  Also, if required we can undertake investigations into areas of suspected fraudulent activity and undertake a series of organisation wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity, maintenance of a fraud risk register, completing returns and benchmarking for national anti-fraud drives etc.
Contingency and Consultancy	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Pensions Committee	Preparation and presentation of papers for committee, and providing technical updates, advice and training to committee members as and when required.
Management	Day to day management of the internal audit service, quality control, client and External Audit liaison and preparation for, and attendance at various senior officer meetings.