



# Internal Audit Annual Report 2017-2018

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## 1. Introduction

Our internal audit work for the period 2017/2018 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 West Midlands Pension Fund's (the Fund) 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. And WMPF annual report. 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;
- Compliance reviews;
- Other pieces of consultancy or 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".*

### Overall Assurance

As the providers of internal audit to the Fund, we are required to provide the Managing Director, Director of Pensions 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, Director of Pensions 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 2017/2018.
- 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

## 2. Internal audit opinion

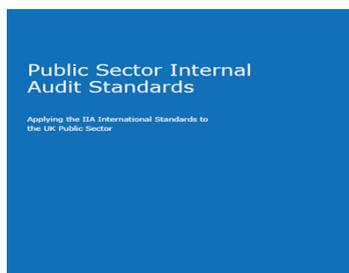
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in the paragraph above, our opinion is as follows:

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 consideration:

- 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 year.

## 3. Compliance with the Public Sector Internal Audit Standards



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.

## 4. Summary of work completed

A detailed written report and action plan is prepared and issued for every review. The responsible employee 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:

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.

This report is PUBLIC [NOT PROTECTIVELY MARKED]

Appendix 2

The following internal audit reviews were completed during 2017/2018:

Audit Reviews	Date	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
<p>Responsible Investments</p> <p>We reviewed the controls and adherence to the Fund's responsible investment framework</p>	July 17		1	7	8	8	Satisfactory
<p>Freedom and Choice</p> <p>£12.7 m has been transferred from the Fund by members since the introduction of rules in April 2016. This audit provided assurance that appropriate controls had been established over transfers.</p>	Sept 17		2	2	4	4	Satisfactory
<p>Custodian Arrangements</p> <p>This audit assessed whether the Fund had appropriate controls in place and could rely on the existing custodian arrangements before transfer of assets to the new custodian.</p>	Sept 17		2	3	5	5	Satisfactory
<p>Guaranteed Minimum Pension (GMP)</p> <p>We ensured the Fund had a robust project plan for the reconciliation of membership records to HMRC records in readiness for the December 2018 deadline.</p>	Nov 17		2	2	4	4	Satisfactory
<p>General Data Protection Regulations (GDPR)</p> <p>We reviewed the arrangements in place to gain assurance that the Fund had appropriate project controls in readiness for the May 2018 regulations.</p>	Nov 17	Recommendations not rated – assessment of Fund against the Information Commissioners checklist '12 steps to take now' document.					Satisfactory
<p>Workforce Development</p> <p>This audit ensured that the Fund follows and applies the Corporate Human Resources Policies and Procedures for workforce matters</p>	Jan 18			5	5	5	Substantial
<p>Contracting Arrangements</p> <p>This audit examined the control and procedures for the provision of the Fund's administration software contract.</p>	Feb 18			3	3	3	Substantial

Audit Reviews	Date	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
<p>Monthly Returns</p> <p>We reviewed the new system for monthly data submissions to ensure robust project controls were in place.</p>	May 18			4	4	4	Substantial

### Key Financial Systems Work

A review of the main controls operated within the Fund's key financial systems has been undertaken. This included payroll, benefits calculations, income and expenditure and overall governance arrangements. We evidenced robust systems and the continuous application of internal controls. Overall we provided a substantial level of assurance for this work.

### Follow up Reviews

A review of recommendations made as part of the 2016/2017 internal audit programme confirmed that all actions have been appropriately implemented.

### Consultancy / ad hoc work

- Internal audit has completed 35 financial appraisals on behalf of the Fund during the year. These are undertaken when an organisation is seeking to obtain admitted body status and establishes whether an organisation will, or will not be able to meet its financial obligations to the Fund.
- In accordance with the Cabinet Office requirements, internal audit continues to be the Fund's key contact for the National Fraud Initiative. In addition, advice and support is provided throughout the year when requested.
- We have provided advice and consultancy on the transition arrangements to LGPS Central, development of the Fund's risk register, and debt monitoring policies.
- In addition, we have provided ongoing support to the Funds external auditors throughout the year.