

Internal Audit Report

Pension Fund External Control Assurance

2016/2017

Final Report

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Prepared for East Sussex County Council

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Report Distribution List

- Phil Hall, Interim Chief Finance Officer
- Ola Owolabi, Head of Accounts & Pensions, BSD
- John Shepherd, Finance Manager – Pension Fund, BSD
- Russell Wood, Principal Pensions Officer, BSD

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Head of Internal Audit.

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1. Introduction

1.1 The main purpose of the audit has been to ensure that adequate control assurance is provided to fund managers on statutory reporting by the investment managers, custodians and property managers. This report aims to provide assurance on the overall effectiveness of controls within the system and identifies areas of concern or weakness where improvements can be made. The principal sources of assurance are as follows:

- AAF 01/06 reports produced in accordance with the requirements of the Institute of Chartered Accounts in England and Wales, for entities registered in the United Kingdom;
- SSAE 16 (American Institute of Certified Public Accountants for Attestation Engagements no.16) and resulting Service Organisation Control Report; and
- ISAE 3402 reports (International Federation of Accountants).

1.2 There are currently 11 different fund managers who invest on behalf of the East Sussex Pension Fund. The pension fund was last valued by the Council's actuaries at 31st March 2013 with assets of £2,344M and liabilities of £2,885M representing a funding level of 82.1%.

1.3 The March 2016 audit of the Pension Fund External Control Assurance concluded full assurance on the effectiveness of the control environment.

1.4 This audit review is part of the agreed Internal Audit Plan for 2016/2017.

1.5 No weaknesses have been identified within the report.

2. Scope

2.1 The scope of the audit was to ensure:

- That adequate internal controls are in place and assurance is provided on fund manager systems through statutory reporting.
- Where such documents are not available or do not comply with the relevant standards, reliance may be placed on local management assurance processes.

3. Audit opinion

3.1 Full Assurance is provided in respect of Pension Fund External Control Assurance. There is a sound system of control designed to achieve the system objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.

Appendix A provides a summary of the opinions and what they mean.

4. Basis of Opinion

4.1 We have assessed the process for monitoring Pension Fund Control Assurance as providing Full Assurance because:

- Controls are in place to ensure External Assurance reports are provided by fund managers in a timely manner. Action is taken where reports are overdue.
- All External Assurance reports had been produced by an appropriate organisation, who we consider to have the necessary qualifications to conduct this type of work.
- Evidence confirms the External Assurance reports have been reviewed by Russell Wood, Principle Pensions Officer and any exceptions noted within the reports are considered in terms of the potential impact they may have on the pension fund.

In providing our opinion, it should be noted that:

- We do not consider any of the exceptions within the External Assurance reports to expose the East Sussex Pension Fund investments to any financial risk.
- The latest external assurance report for Newton's is currently overdue. The last available report covers the period 01/10/2014 to 30/09/2015. The Pension's team have been chasing the report and have been informed that they should receive it by the end of February 2017. This audit has based assurance on the previous year's report from Newton.

5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation of recommendation	0	
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	0	
Low	Recommendation represents good practice but its implementation is not fundamental to internal control	0	
Total number of agreed actions		0	

6. Acknowledgements

6.1 We would like to thank all staff that provided assistance during the course of this audit.

Audit Opinions and Definitions

Opinion	Description
Full Assurance	There is a sound system of control designed to achieve the system objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.