



Internal Audit Report

Pension Governance and Investments

Final Report

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Report Distribution List

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- Wendy Neller, Pensions Strategy & Governance Manager
- John Sheppard, Finance Manager – Pension Fund
- Russell Wood, Principal Pensions Officer
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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 Chief Internal Auditor.

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1. Introduction

- 1.1. East Sussex County Council (ESCC) has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all participating employers in East Sussex. The primary objective is to ensure assets held on behalf of the Fund are managed for the long term benefit of scheme members (in accordance with the rules of the scheme and the regulatory framework), maximising the Fund's growth whilst minimising investment risk.
- 1.2. An actuarial valuation was carried out by Hymans Robertson LLP valuing the Fund with assets of £2,771M and liabilities of £3,012M as at 31 March 2016, representing a funding level of 92%.
- 1.3. The Fund is made up of 127 employers with 23,567 employee members and 28,853 deferred members, as at March 2017.
- 1.4. As in previous years the audits for pension fund governance and investments have been combined.
- 1.5. The previous audit dated September 2016 gave an opinion of full assurance.
- 1.6. This audit is part of the agreed Internal Audit Plan for 2017/18.
- 1.7. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

- 2.1. The scope of the audit was to ensure:
 - All entries relating to the Fund have been accurately recorded in the general ledger in a timely manner;
 - Monitoring arrangements over the pension fund and fund managers are suitable robust;
 - Contributions and investment returns are received in full in a timely manner;
 - Governance arrangements provide effective strategic oversight for the management and investment of the pension fund;
 - Risk management arrangements are suitable robust;
 - Stakeholders receive timely and accurate information;
 - The pension fund is administered in accordance with best practice and legislative requirements.

3. Audit opinion

- 3.1. **Reasonable Assurance** is provided in respect of Pension Governance and Investments. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

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4. Basis of Opinion

- 4.1. We have been able to provide **Reasonable Assurance** over the controls surrounding the pension fund’s governance and investment arrangements, because:
- 4.2. There is a robust framework in place for managing the Fund’s investments, with regular monitoring and entries accurately recorded in the Council’s finance system, SAP.
- 4.3. There is an established Pension Committee with assigned responsibility for making arrangements for the investment, administration and management of the Fund.
- 4.4. There is an established Pension Board with assigned responsibility to ensure that the Fund is managed and administered effectively and efficiently and complies with the Code of Practice.
- 4.5. There is a strong framework for managing the performance of Fund managers with regular performance updates provided to the Pension Board and Committee.

However, some areas for improvement have been identified:

- 4.6. There are ineffectual communication and collaborative working practices in place between key teams.
- 4.7. For the third year in a row there have been delays in distributing annual benefit statements to scheme members. These delays represent a breach which was not reported to the pension regulator in a timely manner as outlined in the breaches policy.
- 4.8. The Fund communication policy is scheduled to be reviewed every February; this did not happen in 2017.

5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	2	1, 2
Low	Represents good practice but its implementation is not fundamental to internal control	1	3
Total number of agreed actions		3	

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6. Acknowledgements

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

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p>Collaborative Working</p> <p>Ensuring statutory obligations are fulfilled is a key feature of governance and for the 3rd year in a row the deadline for the production of Annual Benefit Statements has been missed, Business Operations has responsibility for this process.</p> <p>Like many key deliverables for the Pension Fund the distribution of Annual Benefit Statements requires the input of many of the Fund’s stakeholders. The lack of progress in meeting this statutory deadline highlights the need for better communication and collaborative working between key stakeholder groups, including improving the level of scrutiny over completion of key administrative tasks.</p>	Without effective collaborative working there is a risk that statutory obligations are not met resulting in potential financial loss and reputation damage.	Medium	A Terms of Reference will be agreed setting out key principles and expected collaborative behaviour required to ensure effective governance and administration of the Pension Fund. This will be led by the Pension Fund’s Section 151 Officer and the Head of Accounts and Pensions, who will also receive regular reports concerning the delivery of key administrative tasks.
Responsible Officer:		Ian Gutsell (Chief Finance Officer)	Target Date:	31 st March 2018

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p>Reporting Breaches</p> <p>The breaches policy states that all breaches should be reported to the pension regulator as soon as reasonably practicable and no later than one month after becoming aware of the breach or potential breach.</p> <p>Despite this policy being in place, the recent breach relating to the delay in issuing Annual Benefit Statements to scheme members was not reported to the pension regulator in a timely manner as stipulated in the policy.</p> <p>It is acknowledged that improved collaborative working (as per Action 1) should help prevent further breaches occurring.</p>	<p>There is a risk of financial penalty and reputational damage if breaches are not reported in a timely manner and in accordance with agreed policy.</p>	Medium	<p>All staff involved in pension fund administration will be reminded of the requirement to report any potential breaches to the pension regulator in a timely manner as instructed in the breaches policy.</p>
Responsible Officer:		Ian Gutsell (Chief Finance Officer)	Target Date:	28 th February 2018

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	<p>Communication Policy</p> <p>A communication policy has been produced which promotes the importance of communication and how this will be managed between the various stakeholders.</p> <p>The policy is due to be reviewed annually and was included on the forward plan to be reviewed in February 2017; however this did not form part of the agenda and remains outstanding.</p>	There is a risk of reputational damage or loss of confidence if key stakeholders are not effectively communicated with.	Low	The Pension Fund communication policy will be reviewed, updated and presented to the Pension Board at their next meeting.
Responsible Officer:		Wendy Neller (Pension Strategy & Governance Manager)	Target Date:	31 st March 2017

Appendix A

Audit Opinions and Definitions

Opinion	Definition
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.

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.