



# Final Internal Audit Report

## East Sussex Pension Fund

## Administration 2016/17

Assignment Lead: Siva Sanmugarajah, Lead Auditor

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Prepared for East Sussex County Council

Date: 15 January 2018



**Report Distribution List**

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## Internal Audit Report - East Sussex Pension Fund Administration 2016/17

### 1. Introduction

- 1.1 East Sussex County Council (ESCC) is the administering authority for the East Sussex Pension Fund (ESPF) on behalf of all participating employers and members of the Fund. The formation of the South East Shared Services (SESS) on 1 April 2013, resulted in the administration of East Sussex Pension Fund transferring from SERCO to SESS. The pension administration of Surrey County Council (SCC) was also in SESS, which became the Orbis Partnership on 1 April 2015.
- 1.2 SCC and ESCC were separately using the Altair system supplied by Heywoods for pension administration at the time SESS was formed. ESCC's Altair system used to be hosted by Heywoods, whereas SCC's Altair System was on an SCC server. ESCC's contract with Heywoods expired on 31 March 2015 and, prior to expiry, the contract was extended for another year to 31 March 2016. Following further work by Orbis officers during 2015/16, a new 5 year contract with Heywoods was entered into with effect from 1 April 2016. As part of the new contract, a project to integrate ESCC data with SCC data to a single platform for Orbis was completed in October 2016.
- 1.3 The number of employers in the ESPF increased by 15 to 128 during 2016/17, consisting of 88 Scheduled Bodies and 39 Admitted Bodies as well as ESCC. The overall membership of the ESPF increased by 3.7% during 2016/17 compared to the membership in 2015/16, with the individual increases seen in deferred members (5.5%), pensioners (4.8%) and active members (0.9%). In the same period, the number of active members dropped by almost 6% in ESCC but increased by the same proportion in Scheduled Bodies.
- 1.4 The actuary, Hymans Robertson, completed the most recent triennial Pension Fund actuarial valuation as at 31 March 2016. The initial findings reported to the East Sussex Pension Committee (ESPC), in November 2016, stated that the funding level had improved from 81% in 2013 to 92% in 2016 and the funding deficit has decreased. The main reasons for the change in the funding level over the period were reported as better than anticipated investment returns and the effect of member experiences (e.g. actual salary and pension increases being lower than expected).
- 1.5 The previous audit completed during 2015/16 gave an audit opinion of Partial Assurance.
- 1.6 This audit is part of ESCC's agreed Internal Audit Plan for 2016/17.

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1.7 This report has been issued on an exception basis whereby control 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 review the adequacy of the key controls in relation to the following control objectives:

- Process controls in the system are effective and any transactions, data and outputs from the system are complete and accurate
- The Governance processes that are in place for the pension administration function are both effective and clear.

2.2 The audit did not review processes, systems and controls for Pension Fund Governance, Investments and External Control Assurance, which are audited separately. East Sussex Fire and Rescue Service Pension Administration is also covered under a separate review.

### 3. Audit opinion

**Reasonable Assurance** is provided in respect of the review of East Sussex County Council Pension Administration. 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, what they mean, and sets out management's responsibilities.*

**4. Basis of Opinion**

4.1 We have been able to provide **Reasonable Assurance** over the controls operating for the administration of the pension fund because:

4.2 Audit testing found that controls are operating satisfactorily to ensure that:

- Pension contributions are deducted correctly in the Council's finance system, SAP.
- Employers are making the correct contributions to the Fund.
- Payments to the fund are correctly reflected and any errors and delays are addressed in a timely manner.
- Transfer-in and transfer-out, values and reconciliations are correctly undertaken and maintained.
- New pensioners are correctly completed and pension payments made accurately.

4.3 However, the following areas require improvement:

- There are no written procedures or flowcharts in place to indicate the work needed to support the production of the Annual Benefits Statements and the approval process to issue them.
- The project to integrate the Altair System for ESPF with that used by SCC was completed in October 2016. The project documents (results of user acceptance testing, defects register) handed over showed that they have not been updated and no formal project sign off has been completed.
- There is a single risk register in place to report on risks relating to the ESPF and its administration, however this doesn't reflect a number of risks within Pension Administration in ESCC which are not currently documented or managed.

4.4 Management actions on the four, three-star recommendations from the previous audit were tracked and completed in September 2016 as evidenced by the sign-off by senior management in Business Operations.

5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation	0	0
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	1	1
Low	Represents good practice but its implementation is not fundamental to internal control	3	2, 3 & 4
<b>Total number of agreed actions</b>		4	

6. Acknowledgements

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



Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p><b>Annual Benefit Statements (ABS)</b></p> <p>While processes are in place to test the accuracy of a sample of ABS' prior to issue, there are no written procedures or time-table for the production of the ABS. This can delay the production of ABS e.g. if there are delays by employers in issuing end of year returns.</p> <p>Further, the process by which the ABS' are produced is not independently verified prior to the distribution to members. There is a declaration inserted in the ABS to indicate that the values are only indicative and that the actual values will be manually calculated prior to the retirement of each member.</p>	<p>Absence of formal written procedures may lead to the knowledge being lost when staff leave, or processes and procedures not being followed, resulting in inaccurate or incorrect benefit statements being produced.</p>	Medium	<p>A timetable for the 2018/19 ABS production will be presented to the Pension Board and Committee in February 2018. This will include the requirement for independent verification by the Assistant Director – Business Operations.</p>
Responsible Officer:		Jason Bailey	Target Date: 28 <sup>th</sup> February 2018	



Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p><b>System Changeover</b></p> <p>Following the procurement of a new 5 year contract for the pension administration software, Altair, the ESPF administration data was moved to a single platform, and shared with SCC.</p> <p>The system went 'live' on 3 October 2016. However, the assurance work completed by ESCC Internal Audit in September 2016 could not provide full assurance on whether the:</p> <ol style="list-style-type: none"> <li>1. project plan was robust and had sufficient contingencies;</li> <li>2. data quality was good and its migration was complete;</li> <li>3. User Acceptance Testing (UAT) had been completed; and</li> <li>4. System Security and System Administration were adequate, since the system had not gone 'live' by then.</li> </ol>	<p>The project may not have delivered the required outcomes.</p> <p>All actions may not have been completed, leading to errors in the system.</p>	Low	<p>The project documents will be updated to reflect the actual position and used to provide assurance that the project has been formally concluded and any outstanding actions completed.</p>



Ref	Finding	Potential Risk Implication	Priority	Agreed Action	
2 cont d	The agreed actions were followed-up in this audit and verbal assurance was obtained that all actions were satisfactorily completed. However, the auditor found that the UAT test scenarios detailed in the project documents and the defects register following the migration had not been updated to evidence that the project has been satisfactorily completed and formally signed off. Further, we could find no formal evidence that these issues had been satisfactorily addressed.				
Responsible Officer:		Jason Bailey	Target Date:		28 <sup>th</sup> Feb 2018



Ref	Finding	Potential Risk Implication	Priority	Recommendation (To Agree Action)	
3	<p><b>Risk Register</b></p> <p>Whilst a risk register exists for the East Sussex Pension Fund, a separate risk register is not maintained for the administration function.</p> <p>As noted within this report, there are a number of operational risks relating to the pension administration function that should be recorded, managed and evaluated.</p>	<p>All of the risks which impact on the administration of ESCC pension processes and in turn on the ESPF are not be fully understood and managed.</p>	Low	<p>A separate risk register detailing all the risks within the Pension Administration Team will be maintained and reported to management on a regular basis.</p>	
Responsible Officer:		Jason Bailey	Target Date:		28th Feb 2018



Ref	Finding	Potential Risk Implication	Priority	Agreed Actions
4	<p><b>Access to Altair</b></p> <p>Following the merger of the databases for ESCC and SCC Pension administration, access to the Altair system is administered by a central team based in SCC. Additionally new staff have been recruited and some or all of the work relating to the Pension Administration of Westminster City Council and London Borough of Hillingdon taken on by SCC as the administering authority are now carried out at the ESCC site under the Orbis Partnership.</p> <p>Access to the Altair system, is authorised by the Pensions Lead Manager based on staff roles. Although a sample of Altair users tested for access to the system was found to be satisfactory, the basis of access allocation is not documented and hence unclear across all teams.</p>	<p>Users may not have the appropriate access to Altair to carry out the functions of their role.</p>	<p>Low</p>	<p>The process for obtaining access to Altair will be communicated across the teams.</p>
<p><b>Responsible Officer:</b></p>		<p>Jason Bailey</p>	<p><b>Target Date:</b></p>	<p>31<sup>st</sup> January 2018</p>

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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.