



# Internal Audit Report

## Pension Fund ACCESS Pool

### 2018/19

### FINAL

Assignment Lead: Ben Constable, Senior Auditor

Assignment Manager: Danny Simpson, Principal Auditor

Prepared for: East Sussex County Council

Date: July 2018



### Report Distribution List

- Ian Gutsell, Chief Finance Officer
- Ola Owolabi, Head of Pensions
- Wendy Neller, Pension Strategy & Governance Manager

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.

### East Sussex County Council- Internal Audit Key Contact Information

**Chief Internal Auditor:** Russell Banks, ☎ 01273 481447, ✉ [russell.banks@eastsussex.gov.uk](mailto:russell.banks@eastsussex.gov.uk)

**Audit Manager:** Nigel Chilcott ☎ 01273 481992, ✉ [nigel.chilcott@eastsussex.gov.uk](mailto:nigel.chilcott@eastsussex.gov.uk)

**Anti-Fraud Hotline:** ☎ 01273 481995, ✉ [confidentialreporting@eastsussex.gov.uk](mailto:confidentialreporting@eastsussex.gov.uk)

### 1. Introduction

- 1.1. East Sussex County Council (ESCC) has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all participating employers in East Sussex. The primary objective is to ensure assets held on behalf of the Pension 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 while minimising investment risk.
- 1.2. Recent government reform has called for Local Government Pension Scheme (LGPS) funds to pool their assets in order to:
  - a. achieve the benefits of scale;
  - b. provide strong governance and decision-making (investments should be managed appropriately by the pool with risk adequately assessed and managed);
  - c. reduce costs and improve value for money (pools need to deliver substantial savings in investment fees, both in the near term and over the next 15 years whilst at least maintaining investment performance); and
  - d. improve capacity to invest in infrastructure.
- 1.3. The ESPF has chosen to pool funds with another 11 others to create the ACCESS pool (a collaboration of central, eastern and southern shires). The ACCESS pool has assets of £41bn with the ESPF representing £3.4bn of these funds
- 1.4. The audit aimed to provide assurance that governance arrangements for the new ACCESS Pension Pool are transparent and that the Council retains input to strategic decisions with regards to the East Sussex Pension Fund, particularly in terms of the investment strategy, where different risk appetites across the pool may result in higher risk investments being made, and potential financial loss.
- 1.5. This review is part of the agreed Internal Audit Plan for 2018/19.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted in the main body of the report.

### 2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - Governance arrangements are sufficiently robust to provide effective strategic oversight over the ACCESS pool.
  - The structure of the ACCESS pool provides ESPF sufficient scope to set and meet its own investment strategy.

## Internal Audit Report – Pension Fund ACCESS Pool 2018/19

- That the ACCESS pool has been structured effectively; management and monitoring arrangements are in place to provide expected savings and returns; and that ESPF receive their share of expected savings.

### 3. Audit opinion

- 3.1. **Substantial Assurance** is provided in respect of the **Pension Fund ACCESS Pool**. This opinion means that 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.*

### 4. Basis of Opinion

- 4.1. We have been able to provide **Substantial Assurance** over the controls operating in the area under review because:
- 4.2. We have found that the governance arrangements are already in place or are being developed as the ACCESS pool is established. Taking into consideration that the Pool only went live on 1<sup>st</sup> April 2018, in compliance with the Local Government Pension Scheme: Investment Reform Criteria and Guidance, the governance arrangements (ACCESS Joint Committee) in place appear to be able to offer effective oversight.
- 4.3. Governance arrangements include representation from both members and officers from all participating funds and include the ACCESS Joint Committee with agreed terms of reference to provide oversight of the pool.
- 4.4. The ESPF will be able to exercise some control over its assets' allocation as it will be able to move investments between sub-funds in line with its own investment strategy statement.
- 4.5. An operator has been appointed (the Link Fund Solutions) to appoint investment managers and to manage their performance. The operator's performance will, in turn, be overseen by the Joint Committee.
- 4.6. A formal plan is in place to develop the pool, and progress against this plan is regularly monitored.
- 4.7. At this early stage the structure of the pool appears to be effective (e.g. retaining Schemes' ability to move funds within it). Reporting requirements are currently under review and are being developed in liaison with the participating Schemes to capture Funds' requirements.
- 4.8. Whilst some controls have yet to be fully established, we have found that management is aware of these and is working to develop these in line with the development of the pool. These include consideration of local governance arrangements, e.g. amending the terms of reference for the Pension Board and Pension Committee to reflect the ACCESS pool and the appointment of an Operator to fulfil the function of engaging (or dismissing) managers previously carried out by the Pension Committee.
- 4.9. There are no findings in this report.

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	-	-
Low	Represents good practice but its implementation is not fundamental to internal control	-	-
Total number of agreed actions		-	

6. Acknowledgements

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

# Appendix A

## 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.