

# Internal Audit Report

## Pension Fund Governance and Investments 2018/19

### Discussion Final

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Prepared for: East Sussex County Council

Date: May 2019

### Report Distribution List

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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) in its capacity as the administering authority administers and manages the East Sussex Pension Fund. The current value of the Fund's assets is £3.6bn. The Fund is made up of 136 employers, ranging from District and Borough Councils, Education Bodies, Admitted bodies which include Charitable Trusts, Housing Associations and Private Contractors, East Sussex Fire and Rescue Service and East Sussex County Council. There were 23,710 active members, 30,379 deferred members and 20,586 pensioners as at March 2018.
- 1.2. This audit was carried out during a period of significant change for both the governance and the investment arrangements for Local Government Pension Schemes.
- 1.3. The introduction of the Local Pension Boards under the Local Government Pension Scheme (LGPS) Regulations in April 2015 marked a sea change in the governance arrangements for LGPS funds. It is now likely that there will be a further strengthening of the governance arrangements.
- 1.4. The LGPS Scheme Advisory Board has appointed Hymans Robertson to carry out a review entitled 'The Good Governance Project Survey'. Initially they are seeking the views of those working within LGPS on four possible Governance models designed to help funds to deliver 'Good Governance' for employers and the funds' members.
- 1.5. The Government are also seeking to introduce further changes to the Governance regulations. The Ministry of Housing, Communities and Local Government (MHCLG) has launched a separate consultation exercise on proposed changes to the Local Government Pension Scheme. These new regulations will be designed to protect the pension position of staff, who are compulsorily transferred, as part of outsourcing arrangements.
- 1.6. Since the last audit was carried out, in March 2018, the Fund has achieved the Government's deadline to have LGPS Investment Pools operational by 1 April 2018. The East Sussex Pension Fund (ESPF) has joined with 10 other pension administering authorities to form the ACCESS Pool.
- 1.7. This review is part of the agreed Internal Audit Plan for 2018/19.
- 1.8. 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 purpose of the audit was to provide assurance that controls are in place to meet the following objectives, ensuring that:
  - all entries relating to the Fund have been accurately recorded in the general ledger in a timely manner;
  - monitoring arrangements over the Fund and fund managers are sufficiently robust;
  - investment returns are received in full in a timely manner;

- governance arrangements provide effective strategic oversight for the management and investment of the Fund;
- the Fund is administered in accordance with best practice and legislative requirements; and
- that risk management arrangements are suitably robust.

### 3. Audit opinion

**Substantial Assurance** is provided in respect of **Pension Fund Governance and Investments 2018/19**. 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

We have been able to provide **Substantial Assurance** over the controls operating within the area under review because:

- 4.1. The Fund is being administered in accordance with best practice and effective risk management processes are in place. Measures are being introduced in order to meet the continuing changes in Pension Fund legislation and the rules in relation to investments.
- 4.2. Strategic oversight of the management and investment of the fund is effective, with a robust monitoring arrangement in place for the Fund and for fund managers.
- 4.3. Investment returns are received in a timely manner and entries relating to the Fund are accurately recorded within the General Ledger of the Council's Accounting system.
- 4.4. Since the last audit was carried out, improvements in the control processes for the Pension Fund Governance and Investments have been made and the actions agreed in our report have been implemented. 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		0	

- 5.1. As part of our quarterly progress reports to Audit Committee we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

## 6. Acknowledgements

- 6.1. We would 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.