

# Internal Audit Report

## Pension Fund External Control Assurance 2018/19

### Final

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Prepared for: East Sussex County Council  
Date: March 2019

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### 1. Introduction

- 1.1. This audit was conducted in order to examine arrangements for ensuring the adequacy of the control environment of the Pension Fund investment managers and custodian.
- 1.2. There are currently 10 different investment fund managers who invest on behalf of the East Sussex Pension Fund. The pension fund comprises over 130 scheme employers with 24,570 employee members and 29,253 deferred members, as at March 2018. At the last assessment, the value of the fund was over £3.5bn.
- 1.3. The Council's investment fund managers are expected to obtain external independent assurance reports on how robust their administrative and accounting control procedures are on an annual basis. The Pensions Regulator has developed an assurance reporting framework with the Institute of Chartered Accountants in England and Wales (ICAEW). The assurance reporting framework sets out 23 control objectives that the reporting assurance provider can report on where relevant.
- 1.4. This review is part of the agreed Internal Audit Plan for 2018/19.
- 1.5. 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:
  - The County Council has identified and receives all sources of external control assurance for its pension fund investments and such information is formally reviewed.
  - The various sources of information regarding fund manager and custodian internal control provide the County Council, as administering authority for the pension fund, with adequate assurance. Where they do not, appropriate action is taken.

### 3. Audit opinion

**Substantial Assurance** is provided in respect of **Pension Fund External Control Assurance 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. All the Council's pension investment fund managers obtain assurance in respect of their administrative and accounting control procedures on an annual basis.
- 4.2. The assurance is provided by External Auditors that are independent of the pension investment fund managers.
- 4.3. The assurance engagements were completed in accordance to recognised good practice assurance reporting standards/framework such as the Institute of Chartered Accountants in England and Wales (ICAEW) Technical Release AAF 01/06 or the American Institute of Certified Public Accountants' Statement on Standards for Attestation Engagements (SSAE) no. 18.
- 4.4. The Council's pension officers review the assurance reports for any material issues/findings.
- 4.5. The respective auditors for all fund managers provided a reasonable assurance opinion on the suitability and effectiveness of the controls in place.
- 4.6. In providing our opinion, it should be noted that:
- 4.7. Minor exceptions were raised in the majority of assurance reports. However, the fund managers have responded to each exception raised and there is no assertion from the assurance providers that the exceptions that they have identified expose the East Sussex Pension Fund investments to any financial risk.

### 5. Action Summary

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