



Internal Audit Report

Pension Fund Governance 2020/21

Final

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Prepared for: East Sussex County Council

Date: April 2021



Internal Audit Report – Pension Fund Governance 2020/21

Report Distribution List

Draft Report:

Sian Kunert, Head of Pensions

Michael Burton, Pensions Manager – Governance and Compliance

Final Report:

As per draft, with the inclusion of:

Ian Gutsell, Chief Finance Officer

Phil Hall, Chief Operating Officer

Pension Board

Pension Committee

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

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1. Introduction

- 1.1. East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 127 employers.
- 1.2. The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations.
- 1.3. The Pension Committee is responsible for making arrangements for the administration and investment of the Fund, receiving advice as appropriate from the Pension Board, which is a statutory requirement to assist the Scheme Manager (ESCC) in securing compliance with all relevant pensions' law, regulations and directions. The administration of the Pension Fund is currently being transferred from Business Operations to Finance.
- 1.4. We reviewed the adequacy of governance arrangements over the East Sussex Pension Fund, to cover strategy and the internal controls.
- 1.5. This review is part of the agreed Internal Audit Plan for 2020/21.
- 1.6. 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:
 - Governance arrangements are resilient and provide sufficient and effective oversight;
 - Risk management arrangements are robust;
 - Communication is efficient and effective; and
 - Reporting arrangements ensure that poor performance is identified and corrected.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Pension Fund Governance 2020/21.** 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.

4. Basis of Opinion

- 4.1. There is a Pension Board and Pension Committee in place that meet regularly and have good oversight over the Fund. Following meetings, clear minutes are provided to record decisions, and form the basis for following up action points.
- 4.2. A risk register is in place, which is an active document, and is subject to regular scrutiny from both the Pension Board and the Pension Committee. It is regularly updated and contains appropriate mitigations for each identified risk.
- 4.3. There is sufficient contingency in place for officers, with a number of officers possessing the relevant knowledge and skills in order to undertake others' roles.
- 4.4. Both the Pension Board and Committee undergo knowledge assessments and training to ensure that they possess sufficient knowledge to exercise adequate governance over the Pension Fund.
- 4.5. There were, however, a small number of areas identified where improvements could be made.
- 4.6. Whilst the Fund has made efforts to gain agreement within the ACCESS Pool to finalise and implement the Governance Manual and establish a performance management process for fund managers, this has not yet been successful. These important elements are not yet in place, thus weakening Governance. The Fund is continuing to work with the other members of the ACCESS Pool to strengthen its governance arrangements.
- 4.7. Contact details for Pension Board representatives are not published, reducing the ability for members to be able to contact their representative.

5. Action Summary

5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	1	1
Low	This represents good practice; implementation is not fundamental to internal control.	1	2
	Total number of agreed actions	2	

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. 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. Acknowledgement

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

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Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p>ACCESS Governance Manual</p> <p>The previous audit contained an action in which it was agreed that the Fund would work with its partners in the ACCESS Pool to ensure that the Governance Manual for the ACCESS Pool is approved and implemented.</p> <p>This should include appropriate measures to enable the Fund to manage the performance of, or if necessary, to remove, fund managers.</p> <p>Whilst the Fund has been working with the ACCESS Pool, the Governance Manual has not yet been agreed and implemented, meaning that governance arrangements over the Pool may not be fully effective.</p> <p>We acknowledge that the agreement and implementation of the Governance Manual is the responsibility of the Pool as a whole, rather than the East Sussex Pension Fund in isolation.</p>	Without robust and clear governance arrangements, the performance of the ACCESS Pool may be reduced.	Medium	ACCESS allocated a technical lead to progress this item in March 2021 with the expectation for this to be brought to the joint committee later in the year for approval. Officers will support the ACCESS project as much as possible and feed in to ensure the manual meets the ESPF needs where possible throughout the ACCESS project, taking into account this is a collaborate pool entity and not in ESPF's control.
Responsible Officer:		Russell Wood – Pensions Manager, Investments and Accounting	Target Implementation Date:	30 October 2021

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Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p>Pension Board - Contact Details</p> <p>The Pension Board is made up of both employees’ and employers’ representatives, to represent their respective stakeholders. Despite this representative role, there are no published contact details in a single, easily accessible location to allow members and employers to contact representatives, should they wish to do so.</p>	<p>Failure to publish contact details for Board members makes it more difficult for those they represent to contact them, thus reducing the effect of their representation and increasing the potential for members’ dissatisfaction.</p>	Low	<p>The Pension Fund is fully compliant with all publication requirements in relation to the Pension Board within the Public Service Pensions Act and TPR’s Code of practice. Representatives are appointed to represent the membership and employer base and should be selected based on merit as to what they can actively bring to the board based on their knowledge and experience. There is no requirement or expectation for them to directly communicate with those they represent.</p> <p>The Fund will raise this item with Board members through the newly agreed Communications working group to consider how Board members could be contacted within appropriate communication and correspondence parameters. Outcome from this discussion will form part of the communications project and be fed back to Board and Committee with an appropriate action if any to provide a</p>

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Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
				method for people to contact Board members. In addition the Fund will look at best practice across the LGPS with respect this recommendation and feed this into the working groups discussion.
Responsible Officer:		Michael Burton – Pensions Manager, Governance and Compliance	Target Implementation Date:	30 September 2021

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.