

East Sussex

Local Government Pension Scheme

Internal Audit Strategy and Plan

2021/22



1. Introduction

- 1.1. The Scheme provides retirement benefits for employees of the County Council and 130 other employer organisations, including Brighton & Hove City Council, district and borough councils and academic institutions.
- 1.2. We (the Orbis Internal Audit & Counter Fraud Team) provide internal audit services to the East Sussex Pension Fund.

2. Objective

- 2.1. The objective of this Pension Scheme Audit Strategy and Plan (The Strategy), which is formally reviewed on an annual basis, is to provide the Scheme with a consistent, risk-based approach to determining an internal audit programme for the Pension Fund, which takes maximum advantage of the available sources of internal and external assurance.
- 2.2. The ESPF pools funds with another 10 funds to create the ACCESS Pool, a collaboration of central, eastern and southern shires. The ACCESS pool has assets of £53.8bn with the ESPF representing £2.3bn of these. We are continuing to work with the other authorities in the Pool to arrange and ensure appropriate audit coverage, whilst avoiding duplication.
- 2.3. During the year 2020/21, procurement processes were undertaken for the selection of both the Fund's advisor and its actuary. These resulted in the appointment of ISIO as the Fund's advisor, with effect from 1 February 2021, and of Barnett Waddingham LLP as the Fund's actuary, as from 1 January 2021.
- 2.4. A procurement exercise for the pension administration system was carried out during 2020. The result was a decision to remain with the existing system, Altair, although there will be changes to the way in which it is configured and supported. The new version of Altair has been implemented and is now live. Alongside this, will be a new portal to allow the submission of data from employers to the Scheme.
- 2.5. The Pension Administration Team has been transferred from a Surrey-based Orbis team, to the Finance Team in East Sussex and is now managed by a sovereign East Sussex Head of Pension Administration. This transfer also brings the team under the direct control of the Council's Chief Finance Officer (Section 151 Officer). These changes are expected to provide greater oversight and accountability. Where appropriate, we shall continue to provide advice to support the Fund's transformation.
- 2.6. The Strategy seeks to provide assurance on the following aspects of pension fund activities:
 - Pension Fund governance;
 - The Pension Fund's compliance with regulatory requirements;

- Pension Fund investments and pooling arrangements;
 - The introduction of the new version of the administration system, Altair, and a new employer portal, i-Connect; and
 - Pension Fund administration – people, processes and systems.
- 2.7. If any audits from 2020/21 give an opinion of partial assurance or less, we shall carry out follow-up audits to ascertain the degree to which agreed actions in these areas have been implemented. It should be noted that we shall follow up each action, agreed the previous year, irrespective of the opinion given.

3. Approach

- 3.1. The Strategy uses risk assessment as its foundation. On a periodic basis, risks will be reviewed in consultation with the Chairs of the Pension Committee and Board and with management to identify any new risks. The risk assessment will consider the materiality and significance of the processes involved, any negative factors such as problems or significant changes and any positive factors, which provide comfort or assurance. It should be borne in mind that the Pension Fund is a material and fundamental financial system in its own right and, as such, should be subject to a level of coverage that complements the work of the Scheme's external auditors.
- 3.2. The outcome of the risk assessment will be an objective view of those areas of the business where the organisation requires assurance that risks are being managed effectively. Internal Audit will then use a number of potential sources to provide that assurance.
- 3.3. Throughout the year, there will be routine liaison between Internal Audit and officers representing the Fund to identify emerging risks and ensure that this Strategy continues to reflect the needs of, and risks to, the Fund. COVID-19 has affected the way many areas of the pension administration service are being delivered, as well as having a wider impact on the Fund, in particular on the performance of its investments. It affected the way we delivered the Audit Strategy and Plan in 2020/21 and we recognise that it may have an impact on the way we deliver the Audit Strategy and Plan for 2021/22.
- 3.4. During the year 2020/21, we found that controls had been strengthened, in some cases, significantly, and this has been reflected in the improved audit opinions we were able to provide. This resulted from the successful efforts of the Pension Team in addressing the issues we identified during the previous year.
- 3.5. Where appropriate, audit coverage will be varied from year to year. In areas where no significant findings were made in the previous year, the scope may be widened to other areas to maximise the breadth of coverage. For instance, where new policies have been introduced, we shall review compliance with these. We shall also assess the effectiveness of the transition of the administration from Surrey to East Sussex.

- 3.6. Where possible, direct access to source data will be obtained, including to data held in the administration system (Altair), information passed via the Pension Regulator's on-line portal and HMRC's event reporting portal. Where access cannot be obtained, this will be reported.
- 3.7. We plan to deliver 100 audit days for the year 2021/22, which will provide the flexibility to meet any unforeseen demands. This level of coverage will be kept under review to ensure that it remains appropriate to the needs of the Fund.

4. Professional Standards

- 4.1. Audits of the Pension Fund will be carried out in accordance with the professional standards set out in the Public Sector Internal Audit Standards.

5. Reporting Arrangements

- 5.1. Internal Audit work will be reported in the following manner:
- Terms of Reference will be drafted and agreed with management;
 - An initial draft report will be issued to management for its comments on factual accuracy and response to the issues and risks identified;
 - A final report that includes agreed actions and implementation dates will be published to management.
 - The results of audit work on the Scheme will be reported:
 - in full, to the Pension Board and Pension Committee; and
 - in summary form, to the Audit Committee as part of our quarterly progress reports.
- 5.2. Audit work for 2021/22 will be reported in six separate reports (in addition to any specific follow-up audits), covering the risks detailed below:
- Governance
 - Inadequate governance arrangements, including unclear delegation of key functions, result in poorly defined Fund objectives and ineffective strategic oversight.
 - Lack of resilience on the part of the Fund, or an inexperienced Board or Committee may weaken stewardship of the Fund.
 - Ineffective risk management arrangements result in financial loss and reputational damage to the Council.

- Ineffective communication or poor professional advice results in a lack of understanding amongst relevant stakeholders and/or poor decision making.
- Inaccurate reporting (including performance targets and breaches) results in a failure to identify and correct poor performance.
- Without appropriate checks and guarantees on the funding levels of new and existing employers, the Fund may be exposed to additional financial risk.¹
- Investments
 - Poor performance of the Fund results in financial loss and reputational damage.
 - Investment returns are not received in full in a timely manner.
 - Accounting of the Pension Fund is inaccurate resulting in mis-statement of Fund accounts.
 - East Sussex Pension Fund assets or investment opportunities may be lost, due to the ACCESS Operator, Fund Managers²/Custodian not maintaining adequate systems of internal control.
 - The ACCESS pool does not exploit benefits of economies of scale resulting in a failure to save costs and the pool not returning excellent value for money.
- Compliance with Regulatory Requirements
 - Scheme governance arrangements do not meet regulatory requirements, leading to regulatory sanction and/or reputational damage to the Council.
 - Investment management arrangements do not meet regulatory requirements, leading to regulatory sanction and/or reputational damage to the Council.
 - Pension administration arrangements do not meet regulatory requirements, leading to regulatory sanction and/or reputational damage to the Council.
- Pension Administration – People, Processes and Systems
 - Inaccuracies in the calculation of pension benefit entitlements may cause financial loss to the Scheme or financial hardship to members and reputational damage for the Council.

¹ Also noting that undue delay to signing an admission agreement may result in new pensioners not receiving their pension.

² Includes the internal controls of external fund managers.

- Poor or inadequate delivery of the pension administration service (including as a result of inadequate procedure notes) may result in reputational damage for the Council and/or complaints by members.
- Non-collection of, or inaccuracies in, pension contributions increases the risk of Pension Fund deficit.
- Poor data quality leads to inaccuracies in transactions, or a failure to meet statutory requirements (e.g. ABS production and distribution or the submission of common data sets to the Pension Regulator), resulting in financial loss, and/or regulatory sanction.
- Altair – Application Controls
 - Unauthorised or inappropriate access to confidential information is obtained, resulting in a breach of GDPR, fraud and/or malicious damage to data.
 - Incorrect data is input into the system resulting in inaccurate records being held by the Council.
 - System outputs are incorrect weakening management information and leading to poor decision-making.
 - System updates and enhancements are not introduced in a controlled manner, potentially resulting in a negative impact on service delivery and/or vulnerabilities to malicious attacks against the system.
 - The introduction of the employer portal interface (i-Connect) leads to errors in data transfer, undermining data quality, the accuracy of outputs, including payments, and increases the risk of data breaches.
 - Changes to the system are not communicated or supported effectively, potentially resulting in a negative impact on service delivery.
- The implementation of Altair
 - Data transfer is incomplete or inaccurate, leading to over or under-payments to pensioners or errors in reporting.
 - Access rights to Altair are not set up correctly, increasing the risk of fraud or breaches of GDPR.
 - Governance arrangements, including procedures and guidance are ineffective, increasing the risk of fraud or error.



EAST SUSSEX PENSION FUND INTERNAL AUDIT PLAN 2021/22

Please note that the following provides a high-level scope of the work we are proposing. At the beginning of each review (as with all our work), a detailed term of reference will be developed in consultation with management.

Review Name	Outline Objective	Estimated Timing
Governance	We shall assess the effectiveness of the Fund's governance arrangements and seek to provide assurance that strategic oversight, risk management, reporting and communication processes are in place to maximise the likelihood that the Fund's objectives are met. This review will also cover controls to ensure that only new employers with adequate funding levels are admitted to the Scheme.	Q2
Investments and External Control Assurance	A review to assess the adequacy of controls over the Fund's investments, including the performance of investments, the performance of the ACCESS Operator, and the receipt of, and accounting for, investment income.	Q4
Compliance with Regulatory Requirements	We shall review the arrangements in place designed to ensure compliance with regulatory requirements in relation to governance, investments and administration.	Q2
Pension Administration – People, Processes and Systems	We shall review controls over the calculation and payment of pension benefits, transfers to and from the Pension Fund and the collection and recording of pension contributions from scheduled and admitted bodies.	Q3
Altair - Application Controls	This application audit will review all major input, processing and output controls. It will also cover the controls over the interface with the employer portal (i-Connect), and any other systems, to ensure appropriate system ownership and responsibilities are defined.	Q2



Review Name	Outline Objective	Estimated Timing
The implementation of Altair	We shall review management arrangements over the new instance of Altair, following the transfer of the administration function to East Sussex Finance. The review will cover the effectiveness of data transfer, the allocation of access rights and the establishment of procedures.	Q1