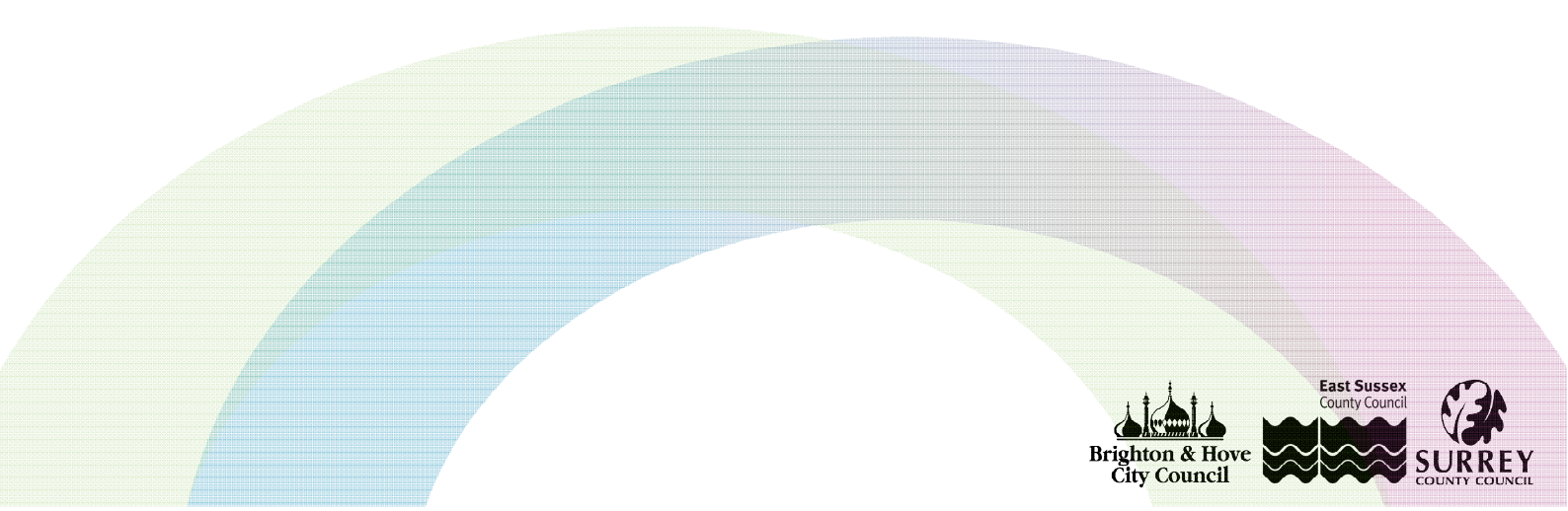


**East Sussex**

**Local Government Pension Scheme**

**Internal Audit Strategy and Plan**

**2022/23**



## 1. Introduction

- 1.1. The Scheme provides retirement benefits for employees of the County Council and 127 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 as part of the ACCESS Pool, a collaboration of central, eastern and southern shires. The ACCESS pool has assets of £32.9bn with the ESPF representing £2.3bn of these. The Fund also has assets of £2.3bn outside the ACCESS Pool. Where possible, we shall seek additional sources of assurance over controls operating over the ACCESS Pool.
- 2.3. The Fund's actuary is Barnett Waddingham LLP, and the next actuarial valuation is due to take place in 2022. The Fund receives professional advice from ISIO.
- 2.4. The Pension Administration Team was transferred from a Surrey-based Orbis team, to the Finance Team in East Sussex, in 2021, and is now managed by a sovereign East Sussex Head of Pension Administration, who reports directly to the Head of Pensions. This transfer brought the team under the direct control of the Council's Chief Finance Officer (Section 151 Officer). These changes are providing greater oversight and accountability.
- 2.5. The Strategy seeks to provide assurance on the following aspects of pension fund activities:
  - Governance;
  - Investments and Accounting;
  - Cash Management;
  - The Administration of Benefit Payments;
  - The data transfer portal, i-Connect; and
  - Cyber Security.

### 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 continued to affect 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.
- 3.4. As result of the structural changes to the team, identified in the previous section (see para 2.4), we are changing our approach to the audits for 2022/23 to align our work more closely with the new governance structure.
- 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.
- 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.
- 3.7. We plan to deliver 100 audit days for the year 2022/23. 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 routine quarterly progress reports.

5.2. Audit work for 2022/23 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.

- Investments and Accounting
  - The ACCESS Pool does not achieve the benefits of economies of scale, or fails to oversee the Operator, Fund Managers<sup>1</sup> or Custodian effectively, resulting in the loss of assets or investment opportunities.
  - Poor performance of the Fund's investments results in financial loss and reputational damage.
  - Investment returns<sup>2</sup> are not received in full in a timely manner.
  - Unexpectedly high levels of payments, or low levels of income, result in the Fund's bank account becoming overdrawn.
  - Accounting of the Pension Fund is inaccurate resulting in mis-statement of the Fund's annual accounts.
  
- Cash Management
  - Failure to collect pension contributions due from all employers in the scheme, at the time they fall due, increases the risk of Pension Fund deficit.
  - The dependency on employers for the timely provision of information, increases the risk of data inaccuracy, undermining the Fund's ability to deliver an effective service.
  - Without obtaining guarantees or bonds to support the funding levels of new employers, the Fund may be exposed to additional financial risk.<sup>3</sup>
  - Unexpected spikes in benefit demands (e.g. large death benefits) may result in the Fund becoming overdrawn.
  
- The Administration of Benefit Payments
  - Poor data quality leads to inaccuracies in transactions, or a failure to meet statutory requirements, resulting in financial loss, and/or regulatory sanction.
  - 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.

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<sup>1</sup> Includes the internal controls of external fund managers.

<sup>2</sup> Some investments are still managed directly by the fund managers appointed by the ESPF.

<sup>3</sup> Also noting that undue delay to signing an admission agreement may result in new pensioners not receiving their pension.

- Poor or inadequate delivery of the pension administration service (including as a result of inadequate procedure notes or system access controls) may result in regulatory breach, leading to reputational damage for the Council and/or complaints by members.
- I-Connect – Application Controls
  - Where access to the system is not sufficiently managed, there is a greater potential for fraud and for data breaches, both of which could have significant financial and reputation impact to the Fund.
  - Where input controls are insufficient, the data in the system could be incorrect, which may cause financial loss to the Scheme or financial hardship to members and reputational damage for the Council.
  - Lack of Business Continuity Planning could result in the service being unable to function in the event that the system is unavailable for any prolonged period.
  - System patching may not be managed sufficiently, causing unplanned outages or known vulnerabilities not being managed in a timely manner.
- Pension Fund Cyber Security Arrangements
  - Cyber risk can be broadly defined as the risk of loss, disruption or damage to a scheme or its members as a result of the failure of its information technology systems and processes. These include risks to information (data security) as well as assets, and both internal risks (e.g., from staff) and external risks (e.g., hacking).



<b>EAST SUSSEX PENSION FUND INTERNAL AUDIT PLAN 2022/23</b>
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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.

<b>Review Name</b>	<b>Outline Objective</b>	<b>Estimated Timing</b>
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.	Q1
Investments and Accounting	A review to assess the adequacy of controls over the Fund's cash flow, its investments, including the performance of investments, the performance of the ACCESS Operator and the receipt of, and accounting for, investment income.	Q3
Cash Management	We shall review the arrangements in place designed to ensure the complete and timely collection and recording of pension contributions from scheduled and admitted bodies.	Q3
The Administration of Benefit Payments	We shall review controls over the calculation and payment of pension benefits, transfers to and from the Pension Fund and the maintenance of the data.	Q3
I-Connect - Application Controls	This application audit will review controls over i-Connect, the employer portal, to ensure appropriate system ownership and management, including data input controls and business continuity arrangements.	Q2
Cyber Security	We shall review arrangements in place to manage cyber security risks to the Fund's information technology systems and data, including risks arising from both internal and external threats.	Q4