

# Internal Audit Report

## Pension Fund Investments and Accounting

### Final

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Assignment Manager: Jodie Hadley, Principal Auditor  
Prepared for: East Sussex County Council  
Date: April 2023

## Internal Audit Report – Pension Fund Investments and Accounting

### Report Distribution List

#### Draft Report

- Sian Kunert, Head of Pensions
- Russell Wood, Pensions Manager: Investments and Accounting

#### Final Report

- Sian Kunert, Head of Pensions
- Russell Wood, Pensions Manager: Investments and Accounting
- Ros Parker, Chief Operating Officer
- Ian Gutsell, Chief Finance Officer
- Pension Committee
- Pension Board

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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## Internal Audit Report – Pension Fund Investments and Accounting

### 1. Introduction

- 1.1. East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 134 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 Fund is a member of ACCESS, a collaboration of 11 LGPS Administering Authorities, which are working together to reduce investment costs and gain economies of scale. ACCESS currently has a total value of £60.1bn, of which £31.8bn is pooled. The ESPF has assets of £4.7bn, of which £2.6bn (55%) is pooled whilst £2.1bn (45%) is not Pooled.
- 1.4. As part of this audit, we reviewed the arrangements to manage investments, including pooling arrangements, and the internal controls of external fund managers.
- 1.5. This review was part of the agreed Internal Audit Plan for 2022/23.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted in the detailed findings section 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:
  - CO1 - The ACCESS Pool achieves the benefits of economies of scale, oversees the Operator, Fund Managers and Custodian effectively, and exploits investment opportunities.
  - CO2 - The Fund's assets are safeguarded and managed in accordance with regulatory requirements.
  - CO3 - The performance of the Fund's investments meets its objectives.
  - CO4 - Investment returns are received in full in a timely manner.
  - CO5 - Effective management of payments and income ensures that the Fund's bank account does not becoming overdrawn.
  - CO6 - Accounting of the Pension Fund is accurate resulting in an unqualified opinion by the external auditor on the Fund's annual accounts.

### 3. Audit Opinion

- 3.1. **Substantial Assurance is provided in respect of Pension Fund Investments and Accounting.** 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

- 4.1. We have been able to provide an opinion of Substantial Assurance because:
- 4.2. The recently expanded Fund's Team comprises experienced officers, who are supported by investment consultants, to ensure that investment performance is monitored, that new investment opportunities are explored, and that appropriate due diligence takes place before making new investments. Investments are made and managed in accordance with regulatory requirements.
- 4.3. Robust processes are in place to ensure that assets are safeguarded, including through the receipt of external control assurance reports from fund managers. Although a small number of these reports have had qualified opinions, these are followed up to ensure that any control weaknesses do not pose a risk to the Fund's investments.
- 4.4. Rigorous checks take place to ensure that fund managers' fees are paid in accordance with contractual obligations.
- 4.5. The Fund's custodian, Northern Trust, ensures that all investment returns are received timeously and in full.
- 4.6. Regular reconciliations take place to provide assurance that transactions are accurately reflected in the in the general ledger.
- 4.7. Effective cash management processes are in place to ensure that the bank account remains in credit.
- 4.8. However, there are minor areas where controls could be strengthened further.
- 4.9. The documenting of accounting processes could offer more complete coverage to improve resilience in the event of the loss of key officers.
- 4.10. There remains inefficiency in the ACCESS Pool, where there is no centralised process to review external control reports, resulting in each of the constituent funds having to review reports independently. No management action has been raised in this report because the Fund is aware of this and has limited capacity to act on its own in this matter.

## Internal Audit Report – Pension Fund Investments and Accounting

### 5. Action Summary

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

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

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 seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically we may also carry out random sample checks of all priority actions.

### 6. Acknowledgement

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

**Internal Audit Report – Pension Fund Investments and Accounting**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>Process Notes</b></p> <p>Last year’s audit contained a management action to document the key accounting and control processes.</p> <p>Progress has been made with process documentation covering the payment of fund managers’ invoices and the receipt and handling of fund managers’ external control assurance reports.</p> <p>However, work remains to document more areas of the Team’s work, including reconciliations and the receipt of investment income.</p>	<p>Without fully documented processes there is an increased risk of error with the absence of key personnel.</p>	<p>Low</p>	<p>The Fund will continue to document its accounting processes to ensure all key areas are covered, including investment returns and reconciliations.</p>
<p><b>Responsible Officer:</b></p>		<p>Russell Wood, Pensions Manager: Investments and Accounting</p>	<p><b>Target Implementation Date:</b></p>	<p>31 December 2023</p>

# 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.