

# Internal Audit Report

## Pension Fund Cash Management

### Final

Assignment Lead: Harvey Sharpe, Auditor  
Assignment Manager: Danny Simpson, Principal Auditor  
Prepared for: East Sussex County Council  
Date: May 2024

## Internal Audit Report – Pension Fund Cash Management

### Report Distribution List

Sian Kunert, Head of Pensions  
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.

**Chief Internal Auditor:** Russell Banks, ☎ 07824362739, ✉ russell.banks@eastsussex.gov.uk

**Audit Manager:** Nigel Chilcott, ☎ 07557541803, ✉ nigel.chilcott@eastsussex.gov.uk

**Anti-Fraud Hotline:** ☎ 01273 481995, ✉ fraudhotline@eastsussex.gov.uk

## Internal Audit Report – Pension Fund Cash Management

### 1. Introduction

- 1.1. The Council (East Sussex County Council) is the designated statutory administering authority of the East Sussex Pension Fund (the Fund). The Council has statutory responsibility to administer and manage the Fund in accordance with the Local Government Pension Scheme (LGPS) regulations.
- 1.2. The Council has delegated the responsibility for the management and responsibility for the Fund to the East Sussex Pension Committee, supported by the Pension Board, and the Chief Finance Officer for East Sussex County Council.
- 1.3. As of 1 April 2023, the Fund comprised 140 scheme employers with 24,691 active, and 35,213 deferred, scheme members, as well as 24,124 pensioners.
- 1.4. The most recent actuarial valuation of the Fund was carried out in 2022. The valuation found that the funding level had improved from 107% in 2019 to 123% in 2022. The Fund's assets and liabilities were valued at £4,618m and £3,760m respectively, a surplus of £858m, compared with a funding surplus of £247m in 2019.
- 1.5. During the financial year 2022/23, the scheme collected £147m in contributions from members and their employers. During the financial year 2022/23, the scheme made benefit payments of approximately £140.4m to members who are now pensioners. Daily cash management is outsourced by the Pension Fund to the Orbis Treasury Management Team.
- 1.6. This review was part of the agreed Internal Audit Plan for 2023/24.
- 1.7. This report has been issued on an exception basis, whereby only weaknesses in the control environment have been highlighted within 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:
  - Pension contributions from all employers in the scheme are collected in full, at the time they fall due;
  - Information from employers is provided timeously to maintain the Fund's ability to deliver an effective service;
  - Funding levels of new employers is sufficient to cover their liabilities; and
  - Spikes in benefit demands are managed to avoid the Fund becoming overdrawn.

### 3. Audit Opinion

- 3.1. **Substantial Assurance is provided in respect of Pension Fund Cash Management (2023/24).** 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 over Pension Fund Cash Management because:
- 4.2. The admission of new employers is managed effectively. Policy documents are up to date and in place, clearly defining requirements for new employers joining the Fund.
- 4.3. Information for employers is easily accessible via the Employer Toolkit, with various guidance around areas such as absences, administration processes and employers' responsibilities.
- 4.4. The Cash Management Strategy has been updated and implemented to reflect current requirements and best practice.
- 4.5. A Service Level Agreement, setting out the respective roles and responsibilities of the Pension Fund and The Council's Treasury Management Team, has been drafted. It is due to be presented to the Pension Committee for formal approval on 19 June 2024.
- 4.6. Appropriate segregation of duty is in place regarding users' roles that have been set up for accessing the Fund's bank account.
- 4.7. Appropriately robust cash flow forecasting take place, with this happening daily to reduce the risk of the Fund's bank account being overdrawn.
- 4.8. LGPS31 forms, accompanying contributions paid over by employers, are rejected if their signatures do not match the authorised signatures held for the employers, or if they have not been completed in full.
- 4.9. Of five actions agreed following the last audit, three have been implemented and two have been partially implemented. Two minor (low risk) actions have been raised to cover the outstanding elements of these actions and these are detailed in the findings section of this report.

## Internal Audit Report – Pension Fund Cash Management

### 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.		
Low	This represents good practice; implementation is not fundamental to internal control.	2	1-2
<b>Total number of agreed actions</b>		<b>2</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 would like to thank all staff that provided assistance during the course of this audit.

**Internal Audit Report – Pension Fund Cash Management  
Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>Process Document for Contribution Checks</b></p> <p>As part of the previous audit, an action was raised whereby a new process of ‘spot’ checking individual employees’ contributions made, against amounts due, would commence once all scheme employers had been onboarded to i-Connect.</p> <p>Although this was expected to begin by 31 January 2024, not all employers have yet been onboarded to i-Connect. We understand that onboarding the outstanding employers is not likely to be complete until June 2024. However, once all employees have been onboarded, the i-Connect team and Accounts team will start making manual check contributions against the contribution bandings, with any discrepancies being communicated to the relevant employer(s).</p> <p>No documented process has yet been established in readiness for this process starting.</p>	<p>Without documenting the required procedures in advance, there is a reduced likelihood that their implementation will be successful.</p>	<p>Low</p>	<p>Spot checking did commence in the summer of 2023 with a new i-Connect administrator in place. Employers were challenged for explanations on differences, leading to confirmation that collections were correct or of corrections being made by the employers. The process in place was complex, as employers have discretion as to when they amend contribution bandings for pay changes, and a change in resource led to a pause, in early 2024, in the process to build a more robust process once all employers are onboarded to i-Connect.</p> <p>Once all employers are on-boarded, a tool will be created to check contributions.</p>
<p><b>Responsible Officer:</b></p>		<p>Sian Kunert - Head of Pensions</p>	<p><b>Target Implementation Date:</b></p>	<p>December 2024</p>

**Internal Audit Report – Pension Fund Cash Management  
Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p><b>Annual Review of LGPS31 Forms</b> As part of the previous audit, an action was raised for the Employer Engagement team to collect authorised signatory forms from all scheme employers, against which the signatures accompanying employers' monthly contribution payments can be checked. All employers have been asked to provide authorised signatory lists.</p> <p>It was also agreed that an annual review of the authorised signatories for all scheme employers would take place, to capture any staff changes. However, no such review has yet taken place. We understand that this is because not all lists have yet been received.</p>	<p>If the list of authorised signatories is not reviewed regularly, there is a risk that it becomes out of date, reducing reliance that can be placed upon it and increasing the risk of error.</p>	<p>Low</p>	<p>The Fund is still chasing employers for the authorised signatory forms with receipt of these being across the year. Complications have been raised where payroll processes are delegated to other organisations and employers have had to consider who should be authorised, i.e. the payroll provider or the employer themselves. In addition, some payroll providers, who submit LGPS31 data through spreadsheet uploads, needed a confirmed process on who is authorising and how this is communicated to the Fund appropriately, so this had caused a delay in the first round of collection.</p> <p>Once the Fund has established it has evidence of the majority of signatory forms, it will schedule a regular date in which an annual refresh of these is requested.</p>
<b>Responsible Officer:</b>		Sian Kunert - Head of Pensions	<b>Target Implementation Date:</b>	December 2024

# 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.