

Internal Audit Report

Pension Fund Investments and Accounting

Final

Assignment Lead: Sue Coleman, Principal Auditor

Assignment Manager: Danny Simpson, Principal Auditor

Prepared for: East Sussex County Council

Date: May 2025

Internal Audit Report – Pension Fund Investments and Accounting

Report Distribution List

Draft Report

Susan Greenwood, Head of Pensions

Russell Wood, Pensions Manager: Investments & Accounting

Final Report

Susan Greenwood, Head of Pensions

Russell Wood, Pensions Manager: Investments & Accounting

Ros Parker, Chief Operating Officer

Ian Gutsell, Chief Finance Officer

Pension Committee Members

Pension Board Members

<p>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.</p>

Chief Internal Auditor: Russell Banks, ☎ 07824 362739, ✉ Russell.Banks@eastsussex.gov.uk

Audit Manager: Nigel Chilcott, ☎ 07557 541803, ✉ nigel.chilcott@eastsussex.gov.uk

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

1. Introduction

- 1.1. The East Sussex Pension Fund (ESPF) is part of the national Local Government Pension Scheme (LGPS). East Sussex County Council (ESCC) administers and manages the ESPF on behalf of 140 employers.
- 1.2. The governance of the ESPF is the responsibility of the East Sussex Pension Committee and the Pension Board supported by the Chief Finance Officer for ESCC.
- 1.3. The ESPF 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.
- 1.4. As of 30 September 2024, East Sussex had a total of £3.0bn (59.6%) in ACCESS governed investments, £2.1bn across 7 ACS sub-funds and a further £0.6bn through the UBS passive arrangement along with £0.3bn in a pool aligned infrastructure investment.
- 1.5. This review is part of the agreed Internal Audit Plan for 2024/25.
- 1.6. 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:
 - The Fund's assets are safeguarded and managed in accordance with regulatory requirements.
 - The performance of the Fund's investments meets its objectives.
 - Investment returns are received in full in a timely manner.
 - Implementation of previous actions.

3. Audit Opinion

- 3.1 **Substantial assurance** is provided in respect of Pension Fund Investments and Accounting 2024/25. This opinion means 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 are able to give an opinion of **Substantial Assurance** because:
- 4.2. The ESCC Pension'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.
- 4.4. The Fund's custodian, Northern Trust, ensures that all investment returns are received timeously and in full.
- 4.5. Regular reconciliations take place to provide assurance that transactions are accurately reflected in the general ledger and within a reasonable timeframe.
- 4.6. However, there are minor areas where controls could be strengthened further.
- 4.7. The documenting of accounting processes could offer more complete coverage to improve resilience in the event of the loss or absence of key officers.
- 4.8. Although the Pensions Team are in the process of creating a locally maintained spreadsheet to monitor the expanding receipt of cash investments, implementing this would create a consolidated record and provide improved transparency.

5. Action Summary

- 5.1. The table below summarises the actions that have been agreed together with the risk rating in the context of the area under review:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	0	
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	0	
Low	This represents good practice; implementation is not fundamental to internal control.	2	1 & 2
Total number of agreed actions		2	

Internal Audit Report – Pension Fund Investments and Accounting

- 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 the audit.

Internal Audit Report – Pension Fund Investments and Accounting 2024/25

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p>Process Notes</p> <p>The last three audit reviews reported a finding (and agreed management action) to review, update and ensure that process notes exist for all key procedures.</p> <p>We acknowledge that progress has been made and that this is an ongoing task. The introduction of the new Council wide accounting system, Oracle, has impacted on fully implementing this action.</p> <p>However, we were provided with evidence to demonstrate that the Pensions Team capture and report on a list of key procedures for the accounts and the investment side. This includes the date they were last updated and responsible people assigned to these at their monthly team meetings. This indicates that there are outstanding documents that are either required to be written or are in need of review.</p>	Without fully documented processes, there is an increased risk of error and/or inconsistency in the absence of key personnel.	Low	<p>The quality of written key procedure notes has been improving along with the coverage across our activities.</p> <p>The expectations around the need to create and maintain good quality key procedures is communicated regularly to the team.</p> <p>We have developed a basic template to structure the key procedure documents in a consistent form.</p> <p>The team are currently going through the year-end processes and starting to understand the new financial system so updates to key procedures are being reassessed while we develop a working understanding of the new system and how to best utilise its functions.</p> <p>The intention is to have revised and developed all key procedure notes by the end of the year.</p>
Responsible Officer:		Russell Wood, Pensions Manager: Investments & Accounting	Target Implementation Date:	31 March 2026

Internal Audit Report – Pension Fund Investments and Accounting 2024/25

Detailed Findings

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p>Investment Income</p> <p>The Pension Committee has made the decision to switch from receiving income in the form of extra units, which are added to the existing holdings, to receiving cash income instead.</p> <p>Northern Trust and ESPF receive a distribution notice that gives details of the amount to be received and the expected date the income will be received. In 2024/25 there were 16 transactions and a total of £47.5m received.</p> <p>The Pensions Team intends to set up an internal spreadsheet to monitor the amount of cash due, date of receipt and corresponding journal entry to ensure the correct amount has been received and coded correctly within the ESCC accounting system. However, it has not yet been completed.</p>	Without a consolidated record of income due, there is an increased risk that investment income is not received and accounted for in full and in a timely manner.	Low	<p>As part of the work around managing the change in the way the investment income is received and recorded, the team has determined that a better system needs to be created to allow the monitoring of this activity to take place and improve reporting.</p> <p>The Fund has now been receiving this income in cash for most of the year and the way in which this is communicated and transacted and recoded is better understood.</p> <p>This information is informing how we create an internal spreadsheet to monitor the process and corresponding journal entry ensuring the Fund understands that all transactions have happened and are accounted correctly.</p>
Responsible Officer:		Russell Wood, Pensions Manager: Investments & Accounting	Target Implementation Date:	30 June 2025

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.