

# Internal Audit Report

## Pension Fund Governance Arrangements

### Final

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Assignment Manager: Danny Simpson, Principal Auditor

Prepared for: East Sussex County Council

Date: August 2025

## Internal Audit Report – Pension Fund Governance Arrangements

### Report Distribution List

#### Draft Report

- Susan Greenwood, Head of Pensions
- Dave Kellond, Compliance and Local Improvement Partner

#### Final Report

As draft report with the inclusion of:

- Ros Parker, Chief Operating Officer
- Ian Gutsell, Chief Finance officer
- Paul Linfield, Communications Manager
- Paul Punter, Head of Pensions Administration
- Pension Board
- Pension Committee

|                                                                                                                                                                                 |
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| <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> |
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### 1. Introduction

- 1.1. Governance is the combination of processes and structures put in place by an organisation to inform, direct and monitor activities in order to achieve its objectives. Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively, meet legislative needs and reflect best practice.
- 1.2. The East Sussex Pension Fund (ESPF) provides retirement benefits for employees of the County Council and 140 other employer organisations, including Brighton & Hove City Council, district and borough councils and academic institutions.
- 1.3. ESPF pools with another 10 funds as part of the ACCESS Pool, a collaboration of central, eastern and southern shires.
- 1.4. This review has focused on the controls in place to ensure that ESPF roles and responsibilities are sufficiently well defined, documented and understood to ensure that the accountability and resilience of the Fund are maintained in the face of loss of key personnel.
- 1.5. This review is part of the agreed Internal Audit Plan for 2025/26 and has been delivered in compliance with the Global Internal Audit Standards and the Local Government Application Note.
- 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.
  - Roles and responsibilities, including delegations for decision-making, are clear to ensure timely decisions, including those on investments.
  - Robust arrangements are in place to ensure continuity and knowledge sharing if Committee Members or officers were to leave their positions.
  - All agreed actions from the 2022/23 Governance Arrangements have been implemented in full.

### 3. Audit Opinion

- 3.1 **Substantial assurance is provided in respect of Pension Fund Governance Arrangements.** 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. Based on the testing undertaken, we have been able to provide an opinion of Substantial Assurance over the controls in place because:
- 4.2. The roles and responsibilities of the Pension Board and Pension Committee are known, understood and documented, and there are terms of references setting out their remits. The Board and Committee meet regularly, and minutes of meetings are published online.
- 4.3. There is adequate representation on the Board to allow for employers to contribute to decisions, without undue influence.
- 4.4. The Board and Committee have effective oversight of the Fund through information received in order to scrutinise, provide challenge and, where appropriate, make decisions. As there are clear policies, procedures and protocols in place and the Board and Committee receive reports on risk management, breaches, communication, investments, and performance, to name a small sample.
- 4.5. Members and officers declare any actual or perceived conflicts of interest and are not permitted to vote or be involved in decision making in any areas where they may be considered to have a personal or prejudicial interest.
- 4.6. However, there are opportunities to further strengthen the control environment, which are summarised below. These include findings raised as part of the 2024/25 Pension Fund Compliance with Regulatory Requirements review; however, we have not raised additional findings, and these have not fed into the assurance opinion for this audit.
- 4.7. Whilst there is a comprehensive Risk Management Policy in place, there is not a detailed definition of the Fund's risk appetite contained within this, to ensure that any decisions taken and mitigating actions are within the risk tolerances of the Fund.
- 4.8. The following findings had been identified, in the 2024/25 Compliance with Regulatory Requirements review:
- Whilst Members of the Board and Committee have sufficient knowledge and experience to execute their duties effectively, the training available and circulated to officers, Board and Committee members is not always well attended and there is no mandatory training. This will need to be considered in relation to any changes in governance required as part of the 'Fit for the Future' consultation launched by the government regarding pension reforms. This was also raised as a finding in the 2022/23 Pension Fund Governance audit.
  - Some policies on the Pension Fund website still refer to the previous Head of Pensions, who is no longer in post. We are aware some policies have been updated in this time, and this is a work in progress.

### 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  | N/A |
| Medium                         | Existing procedures have a negative impact on internal control or the efficient use of resources. | 0  | N/A |
| Low                            | This represents good practice; implementation is not fundamental to internal control.             | 1  | 1   |
| Total number of agreed actions |                                                                                                   | 1  |     |

- 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 the 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 Governance Arrangements

### Detailed Findings

| Ref                         | Finding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Potential Risk Implication                                                                                                         | Risk                               | Agreed Action                                                                                                                                                                                                                                                                            |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1                           | <p><b>Risk Appetite</b></p> <p>The East Sussex Pension Fund (ESPF) website contains the current Risk Management Policy for the Fund. The policy sets out the Fund's approach to risk, including roles and responsibilities.</p> <p>The policy states: "<i>Whilst all of these strategies [terminate, treat, tolerate, and transfer] are available, there will be some areas of risk which the Fund will not tolerate and will always seek to reduce to an acceptable level. These areas are based on the Fund's risk appetite which is defined as 'the amount of risk an organisation is willing to accept'.</i>"</p> <p>From the statement above, there is clear definition of the principle of risk appetite; however, there is no specific definition of the Fund's own risk appetite.</p> | Without defining the Fund's risk appetite, it is difficult to determine an appropriate level of control to manage potential risks. | Low                                | <p>We shall consider how to capture the Fund's risk appetite, given the many forms of risk the Pension Fund takes, and how we define, record and monitor these risks, particularly for investments</p> <p>We shall review how this fits into the governance framework in the future.</p> |
| <b>Responsible Officer:</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Susan Greenwood, Head of Pensions                                                                                                  | <b>Target Implementation Date:</b> | 1 April 2026                                                                                                                                                                                                                                                                             |

# 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.