



# Internal Audit Report

## Pension Fund - Compliance with Regulatory Requirements 2020/21

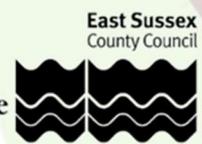
### Final

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Assignment Manager: Danny Simpson, Principal Auditor

Prepared for: East Sussex County Council

Date: January 2021



## Internal Audit Report – Pension Fund - Compliance with Regulatory Requirements 2020/21

### Report Distribution List

Draft Report Circulation:

Sian Kunert – Head of Pensions

Dave Kellond – Compliance and Local Improvement Partner

### Final Report Circulation:

As per draft report, with the inclusion of:

Ian Gutsell – Chief Finance Officer

Paul Punter – Head of Pensions Administration

Russell Wood – Pensions Investment Manager

Pension Board

Pension Committee

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.

### East Sussex County Council - Internal Audit Key Contact Information

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## Internal Audit Report – Pension Fund - Compliance with Regulatory Requirements 2020/21

### 1. Introduction

- 1.1. The Council (East Sussex County Council) is the designated statutory administering authority of the East Sussex Pension Fund. The Council has statutory responsibility to administer and manage the fund in accordance to rules of the Local Government Pension Scheme (LGPS), which are set out in the following regulations:
  - The Local Government Pension Scheme Regulations 2013;
  - The Local Government Pension Scheme Transitional Provisions, Savings and Amendment Regulations 2014; and
  - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 1.2. The governance of the Fund is the responsibility of the East Sussex Pension Committee supported by the Pension Board, the ESCC Chief Finance Officer and the Pension Fund officer team. The day to day administration of the Fund is provided by East Sussex County Council.
- 1.3. This review is part of the agreed Internal Audit Plan for 2020/21.
- 1.4. This report has been issued on an exception basis, whereby only weaknesses in the control environment have been highlighted within the main body 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:
  - Scheme governance arrangements meet regulatory requirements;
  - Investment management arrangements meet regulatory requirements; and
  - Pension administration arrangements meet regulatory requirements.

**3. Audit Opinion**

- 3.1. **Substantial Assurance is provided in respect of Pension Fund - Compliance with Regulatory Requirements 2020/21.** 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 substantial assurance over the controls in place because:
- 4.2. Investments are well controlled, with appropriate advice taken where required in order to ensure regulatory compliance. There is an Investment Strategy Statement which outlines the investment types and target allocations for each investment type that the Fund wishes to pursue; this is reviewed regularly, as per the Investment Regulations (2016). The Fund also engages Investment Managers and maintains appropriate records of these.
- 4.3. A Business Plan has been developed, outlining the key objectives and activities of the Fund for the 2020/21 financial year.
- 4.4. There is a new Breaches Policy in place which has been approved by the Pension Board and Committee, outlining the requirements in relation to reporting breaches, as required by the Pensions Regulator.
- 4.5. A Compliance and Local Improvement Partner has been appointed to aid compliance with regulatory requirements, and a number of projects are underway to improve controls in this area.
- 4.6. There were, however, a small number of areas where improvement could be made. These are as follows:
- 4.7. Not all officers working within the Pension Fund have completed a declaration in the register of interests, thus reducing transparency and increasing the risk of a conflict materialising that remains unmanaged, which may be to the detriment of the Fund.
- 4.8. A number of policies and strategy documents are outdated, meaning that they do not always align with current practice.

**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.	2	1,2
<b>Low</b>	This represents good practice; implementation is not fundamental to internal control.	1	3
<b>Total number of agreed actions</b>		<b>3</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 track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

**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 - Compliance with Regulatory Requirements 2020/21**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>Policies and Strategies</b></p> <p>Policies and strategies should be regularly reviewed and updated in order to ensure they contain current and relevant information and that staff comply with them and that the policy and practice are aligned.</p> <p>A number of policies have been found to be overdue for review, including:</p> <ul style="list-style-type: none"> <li>• Administration Strategy;</li> <li>• Maintaining Contributions;</li> <li>• Exercise of Discretionary Functions;</li> <li>• Communication Strategy;</li> <li>• Governance Policy Statement;</li> <li>• GDPR Memorandum of Understanding and</li> <li>• Dispute Procedure Guide.</li> </ul>	<p>Failure to ensure that policies and strategies are reviewed and updated regularly, may lead to a lack of clarity, increasing the risk of error and non-compliance with statutory requirements.</p>	Medium	<p>A policy tracker has been implemented in December 2020 to ensure officers are fully aware of dates policies require review. The website has been updated in December and January for policies updated but not yet published. The Administration strategy was updated and approved in September 2020 with employer consultation ending November. The new policy is effective from Jan 2021 – this policy will be published in Jan 2021. The communication policy was revised and approved June 2020 – this was never published so will be published Jan 2021. All policies out of date will be added to the Pension Committee and Pensions Board work programme to ensure sufficient scrutiny and approval levels; with policies scheduled for rolling review on the future work programme to avoid policies becoming out of date in the future.</p>
Responsible Officer:		Sian Kunert	Target Implementation Date:	30 June 2021

**Internal Audit Report – Pension Fund - Compliance with Regulatory Requirements 2020/21**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p><b>Declarations of Interest</b></p> <p>All officers should have up to date declarations in the register of interests, whether, or not, they have a potential conflict to declare. The purpose of these declarations is to ensure transparency and reduce the risk of a conflict materialising that puts the performance of the Pension Fund, or reliability of decision, making at risk.</p> <p>Testing identifying three officers who had not completed declarations in the register.</p>	<p>Without all officers completing declarations in the register of interests, there is an increased likelihood that conflicts materialise that are not managed, increasing the risk of decisions being made, or are perceived to be made, that are not in the best interests of the Fund.</p>	Medium	<p>All pension fund officers have been advised (07/01/2021) to complete the declarations in line with the new policy which was approved in November 2020 including the pensions admin team who would have been out of scope until December 2020 when they were TUPE-ed to ESCC. A follow up will be completed in 2 weeks to capture any outstanding.</p> <p>The three sample cases without declarations have now been completed (12/01/2021)</p> <p>The conflicts declaration will be added to induction guidelines for the team to ensure new starters complete.</p>
<b>Responsible Officer:</b>		Sian Kunert	<b>Target Implementation Date:</b>	Complete

**Internal Audit Report – Pension Fund - Compliance with Regulatory Requirements 2020/21**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
3	<p><b>Complaints Log</b></p> <p>It is important to maintain a record of all complaints and negative comments that the Fund receives in order to improve the quality of service provided. A complaints log should have a responsible officer who regularly reviews complaints and escalates them as appropriate.</p> <p>During testing we were unable to obtain a copy of the log, ascertain where it was kept, or which officer(s) had overall responsibility for maintaining it.</p>	<p>Failure to maintain an accurate and up to date record of all complaints and negative comments reduces the opportunity for the Fund to improve service.</p> <p>Lack of responsible officer for the complaints log may result in the log not being regularly reviewed and reduces oversight, meaning that any negative trends may not be identified and resolved.</p>	Low	<p>The pensions administration team will own the complaints log in the first instance and escalate to the relevant part of pensions to resolve. Currently there is a complaints log, however this sits within Orbis and there is no transparency to ESPF officers. Due to the timing of the disaggregation of the administration function, the complaints procedure will be reviewed and a new log put in place from 1 April 2021 when the administration function is fully managed in ESCC. Actions will include training to staff on complaints, a revision to the existing policy and a new log to sit within the ESCC network for the Head of Pensions, Head of Pensions Admin and Pensions Manager for Governance and Compliance to review quarterly.</p>
<b>Responsible Officer:</b>		Sian Kunert	<b>Target Implementation Date:</b>	30 April 2021

# 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.