



# Internal Audit Report

## Pension Fund Governance 2021/22

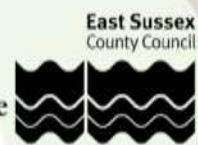
### Final

Assignment Lead: Amanda Craig, Principal Auditor

Assignment Manager: Danny Simpson, Principal Auditor

Prepared for: East Sussex County Council

Date: December 2021



## Internal Audit Report – Pension Fund Governance 2021/22

### Report Distribution List

#### Draft Report:

Sian Kunert, Head of Pensions

Michael Burton, Pensions Manager - Governance and Compliance

#### Final Report:

As per the draft report distribution list, with the inclusion of:

Phil Hall, Interim Chief Operating Officer

Ian Gutsell, Chief Finance Officer

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

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

**Audit Manager:** Nigel Chilcott, ☎ 07557 541803, ✉ nigelchilcott@eastsussex.gov.uk

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

### 1. Introduction

- 1.1. East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 130 employers.
- 1.2. The Fund is responsible for managing assets for the long-term benefits of scheme members in accordance with statutory regulations. The Pension Committee is responsible for making arrangements for the administration and investments of the Fund, receiving advice as appropriate from the Pension Board, which is a statutory requirement to assist the Scheme Manager (ESCC) in securing compliance with all relevant pensions' law, regulations and directions. The administration of the Pension Fund is now undertaken by ESCC, having previously been carried out by Orbis Business Operations.
- 1.3. We reviewed the adequacy and effectiveness of governance arrangements over the Pension Fund, to provide assurance that strategic oversight, risk management, reporting and communication processes are in place to maximise the likelihood that the Fund's objectives are met.
- 1.4. This review is part of the agreed Internal Audit Plan for 2021/22.
- 1.5. 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:
  - Governance arrangements are resilient and provide sufficient and effective oversight.
  - Risk management arrangements are robust.
  - Communication is efficient and effective.
  - Reporting arrangements ensure that poor performance is identified and corrected.
  - Checks and guarantees on funding levels of new and existing employers is robust.

### 3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Pension Fund Governance 2021/22.** This opinion means that most 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. There is sufficient and effective oversight by the Pension Board and Pension Committee, to ensure that regulation is adhered to and good practice principles are applied. This is through regularly held and clearly recorded Pension Board and Committee meetings. All members of the Pension Board and Committee are able to benefit from training in order to effectively undertake their role and enhance their knowledge. All members are required to declare any potential conflicts of interest at the beginning of all meetings.
- 4.2. Restructuring has ensured that the Pensions Fund is now more resilient and able to respond to unexpected changes as there are sufficient resources in the Fund to account for any staff changes or shortages.
- 4.3. A risk register is in place that is subject to regular scrutiny from the Pension Board and Pension Committee. This document is active, updated regularly and mitigations in place are appropriate in order address each risk identified.
- 4.4. Overall good practice has been observed and effective controls are in place; however, there are some opportunities for improvement.
- 4.5. Whilst the Fund has made efforts to gain agreement within the ACCESS Pool to finalise and implement the Governance Manual and establish a performance management process for fund managers, this still needs approval from the ACCESS Pool's Joint Committee prior to its implementation. Without these important elements being in place, governance arrangements may be weakened. The Fund is continuing to work with the other members of the ACCESS Pool to strengthen its governance arrangements.
- 4.6. Regular surveys of employers' views have not been undertaken since the Fund has been managed by East Sussex. Therefore, mechanisms to identify whether communication objectives have been met are not in place, potentially weakening the communication between the Fund and its members.
- 4.7. As part of the 2020/21 Pensions Administration audit, the scope included a review of the arrangements in place to ensure checks and guarantees on funding levels of newly admitted employers are robust. Whilst improvements have been made, at the time of this review, the action had only been partially implemented, as documented procedures are in still draft and templates are in development for the electronic admissions portal, which will provide greater control over the process for admitting new employers. This has not been raised in the findings below but will be reviewed with management through the Internal Audit action tracking process.

### 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.	1	1
Low	This represents good practice; implementation is not fundamental to internal control.	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 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 Governance 2021/22**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>ACCESS Governance Manual</b></p> <p>The previous audit contained an agreed action that the Fund would work with its partners to ensure that the Governance Manual for the ACCESS Pool is approved and implemented. This included appropriate measures to enable the Fund to manage the performance of, or if necessary, to remove, fund managers.</p> <p>Work has continued and a Technical Lead from West Sussex County Council has been appointed to oversee its finalisation. However, the Governance Manual has not yet been agreed or implemented, meaning that the governance arrangements over the Pool may not be fully effective.</p> <p>We acknowledge that the agreement and implementation of the Governance Manual is the responsibility of the Pool as a whole, rather than the East Sussex Pension Fund in isolation.</p>	Without robust and clear governance arrangements, the performance of the ACCESS Pool may be reduced.	Medium	<p>The Governance Manual is due for review and approval by the Section 151 Officer Group at the end of November 2021.</p> <p>Following this, the document will be presented to Joint Committee in December 2021 or March 2022 for review and approval. Once approved at the Joint Committee the ACCESS Pool Governance Manual will be implemented.</p>
<b>Responsible Officer:</b>		Russell Wood, Pensions Manager, Investments and Accounting	<b>Target Implementation Date:</b>	31 May 2022

**Internal Audit Report – Pension Fund Governance 2021/22**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p><b>Communications Survey</b></p> <p>A requirement of the Fund’s Communication Strategy is to undertake an annual satisfaction survey of employers.</p> <p>However, surveys have not been undertaken since 2019/20, when the administration of the Fund transferred from Orbis to East Sussex. It was confirmed that a survey is planned to be undertaken once a Communications Manager is in post from 2022.</p>	<p>If satisfaction levels of the ESPF are not measured through surveys, any opportunities to improve the performance of the Fund may be missed.</p>	Low	<p>The Communications Strategy will be reviewed and updated once the Communications Manager is in post. This will include the production and analysis of annual satisfaction surveys of employers.</p>
<b>Responsible Officer:</b>		Sian Kunert, Head of Pensions	<b>Target Implementation Date:</b>	28 February 2022

# 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.