

# Internal Audit Report

## Pension Fund Administration of Pension Benefits

### Final

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Prepared for: East Sussex County Council  
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## Internal Audit Report – Pension Fund Administration of Pension Benefits

### Report Distribution List

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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.

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## Internal Audit Report – Pension Fund Administration of Pension Benefits

### 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 a 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 of the Fund to the East Sussex Pension Committee, supported by the Pensions Board & Chief Finance Officer (S151 officer) for East Sussex County Council.
- 1.3. As of 1 April 2023, the Fund comprised 140 scheme employers, with 24,691 active employees, 35,213 deferred members, and 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 made pension benefit payments of £140.4m.
- 1.6. This audit reviewed the controls employed by management over the calculation and payment of pension benefits and transfers to and from the Pension Fund.
- 1.7. This review was part of the agreed Internal Audit Plan for 2023/24.
- 1.8. This report has been issued on an exception basis, whereby only weaknesses in the control environment have been highlighted within the detailed findings section.

### 2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - Data quality is sufficiently accurate to support transactions and reporting requirements;
  - The calculation of pension benefit entitlements is accurate; and
  - Delivery of the pension administration service complies with the requirements of the Pension Regulator.

### 3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Pension Fund Administration of Pension Benefits (2023/24).** 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. Based on the testing undertaken, we have been able to provide an opinion of **Reasonable Assurance** over the controls in place. This is because:
- 4.2. Data quality assurance processes are in place, including identifying data validation errors where information is received via automated data transfer.
- 4.3. Pension benefits are processed accurately, are paid on time and are supported by relevant authorisation. Before pension benefits are put into payment, checks are made by a second officer to provide additional assurance.
- 4.4. Reporting to the Pension Board and Committee is transparent and open, with regular reporting on employers joining or leaving the scheme and KPI achievement levels, with appropriate rationale provided where expected performance levels have not been attained.
- 4.5. There were, however, some areas where controls could be strengthened.
- 4.6. Revocation of system access for users, who have left the council's employment, is not always actioned timeously to mitigate the risk of unauthorised access to, or amendment of, personal data.
- 4.7. Process checklists are not always fully completed to confirm all steps within a process have been undertaken and have received review and sign-off by a second officer, increasing the risk of error.
- 4.8. Changes of members' address are not always supported by members' formal authorisation, and changes of members' bank details are not always followed up by confirmation to the member that the change has been made.

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### 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.	4	1 - 4
<b>Total number of agreed actions</b>		4	

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.

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**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>Altair User Access</b></p> <p>Testing identified a member of staff who still had access to Altair (the Pensions Administration system) two weeks after they had left the Council. The former employee's access was withdrawn as soon as the Pensions Administration Team was advised.</p>	<p>Where former employees retain access rights to Council systems, there is a risk they make unauthorised and/or fraudulent amendments to data and that the Council is in breach of its obligations under the General Data Protection Regulations (GDPR).</p>	Low	<p>Access for this former employee was removed immediately we became aware (on 27/02/24). There are regular audits of Altair access to ensure we pick up unreported leavers.</p>
<b>Responsible Officer:</b>		Paul Punter – Head of Pensions Administration	<b>Target Implementation Date:</b>	Implemented

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**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p><b>Transfer Checklists</b></p> <p>Where employees transfer into or out of the East Sussex Pension Scheme from other schemes, the processes utilise checklists to map out and record that the correct process has been followed.</p> <p>Testing found that transfer checklists are not fully completed in all cases. Limited instances were found relating to:</p> <ul style="list-style-type: none"> <li>• Transfers in;</li> <li>• Transfers out; and</li> <li>• quotations.</li> </ul>	<p>Where checklists are not fully completed, there is increased risk that the process has not been followed. Consequently, there is an increased risk of fraud or error.</p>	Low	<p>At the monthly PAT meeting on 23/05/24, the minutes will reflect that the internal audit findings were discussed with the Team. The Team will be reminded of the importance of all checklists being fully completed by both the doers and checkers.</p>
<b>Responsible Officer:</b>		Paul Punter – Head of Pensions Administration	<b>Target Implementation Date:</b>	31 May 2024

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**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
3	<p><b>Change of Address - Member Authorisation</b></p> <p>If a member of the scheme changes their address, a request for the Fund to amend its records to reflect the new address should be accompanied by the signed authorisation from the member, except where:</p> <ul style="list-style-type: none"> <li>• the change of address is notified by the employer via I-Connect;</li> <li>• the member requests the change of address through the member self-service portal; or</li> <li>• the member's request is notified from their work email.</li> </ul> <p>However, other changes of members' address details in Altair are not always supported by the required authorisation.</p>	<p>Where changes of address are processed without the appropriate member's authority, there is an increased risk of fraud or error.</p>	Low	<p>At the monthly PAT meeting on 23/05/24, the minutes will reflect that the internal audit findings were discussed with the Team. The Team will be reminded that any change of address by letter / email requires a wet signature and should be acknowledged.</p>
<b>Responsible Officer:</b>		Paul Punter – Head of Pensions Administration	<b>Target Implementation Date:</b>	31 May 2024



**Internal Audit Report – Pension Fund Administration of Pension Benefits**  
**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
4	<p><b>Member Confirmation of Bank Details Change</b></p> <p>A scheme member's change of bank details can be reported to the Fund in different ways:</p> <ul style="list-style-type: none"> <li>• direct notification by the member themselves;</li> <li>• BACS Payment Service Reports; and</li> <li>• Member Self Service (MSS) requests.</li> </ul> <p>Testing of changes to members' bank details in Altair found that confirmation of the changes having been actioned is not always issued to members. This is not isolated to one particular method of notification, with instances found to span members' signed notification of the change, BACS Payments Service Report changes and MSS reported changes.</p>	<p>Where confirmation of a change of a member's details is not provided, it may lead to uncertainty over whether the change has been actioned and may increase the risk of fraudulent changes being processed.</p>	Low	<p>At the monthly PAT meeting on 23/05/24, the minutes will reflect that the internal audit findings were discussed with the Team. The Team will be reminded that any change of bank account by letter / email requires a wet signature and should be acknowledged.</p>
<b>Responsible Officer:</b>		Paul Punter – Head of Pensions Administration	<b>Target Implementation Date:</b>	31 May 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.