

# Internal Audit Report

## Pension Fund Financial Controls

### Final Report

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Prepared for: East Sussex County Council  
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## Internal Audit Report – Pension Fund Financial Controls

### Report Distribution List

- Susan Greenwood, Acting Head of Pension Fund
- Vicki Richardson, Head of Business Administration
- Russell Wood, Pensions Manager: Investment & Accounting
- Ian Gutsell, Chief Finance Officer
- Pension Committee
- Pension Board

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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### 1. Introduction

- 1.1. East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (ESPF, or “the Fund”) on behalf of 140 employers. The Council is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations.
- 1.2. The Fund is a member of the ACCESS Pool, a collaboration of 11 LGPS Administering Authorities, which are working together to reduce investment costs and gain economies of scale. As of 30 June 2024, the 11 members of the ACCESS Pool held assets with a total value of £63.3bn, of which £45.9bn was pooled. The ESPF had assets of £4.9bn, of which £3.0bn (61%) was pooled, whilst £1.9bn (39%) was not pooled.
- 1.3. As part of this audit, we reviewed the financial controls in place within the Fund, focusing on controls in the following areas:
  - Approval of Fund payments,
  - Management of the Fund’s debtors,
  - Management of the Fund’s creditors, and
  - The reconciliation process in place for the Fund’s aligned accounts (Pension Fund bank account, Pension Fund payroll accounts).
- 1.4. This review was part of the agreed Internal Audit Plan for 2024/25.
- 1.5. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted in 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:
  - All transactions are genuine and are processed promptly and accurately, in accordance with agreed policies and approval limits.
  - Pension Fund transactions are accurately reflected in the Fund’s accounts.

### 3. Audit Opinion

- 3.1. **Substantial Assurance is provided in respect of Pension Fund Financial Controls.** 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 an opinion of Substantial Assurance because:
- 4.2. Invoices are paid in accordance with the requirements of Financial Regulation and are subject to appropriate checks and authorisation before payments are made.
- 4.3. Pension payroll related payments to third parties, e.g., HMRC, are made promptly and in accordance with the relevant requirements.
- 4.4. Appropriate reconciliation of control accounts, including payroll, creditors and debtors, takes place.
- 4.5. The East Sussex Pension Fund bank account is subject to frequent reconciliation and review.
- 4.6. However, we have identified one area where controls could be strengthened.
- 4.7. Although robust systems are in place to collect most income due to the fund, invoices are not raised for administration charges levied against employers for late payment of contributions, which weakens the Council's ability ensure all debts are collected promptly because the debts are not recognised in the accounting system.

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### 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.		
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.	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 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 should 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>The Raising of Administration Charges for Late Payments</b></p> <p>Standard Financial Procedure outline clear processes for the raising of invoices in respect of charges due to the Fund. As part of our checks on compliance with these processes, we noted that late payment charges for the value of £150 relating to Equity Fund contributions are being raised via letters, rather than through the raising of invoices.</p> <p>The raising of charges via this method, means that the management and recovery of these debts is also administered outside the Council's debt recovery process. However, we acknowledge that these charges are of low value and low volume.</p>	The raising of charges outside agreed income collection processes can make it difficult to monitor debts, which may lead to the failure to receive all income due.	Low	Officers will be reminded of the need to raise invoices in accordance with Standard Financial Procedures.
<b>Responsible Officer:</b>		Susan Greenwood, Acting Head of Pension Fund	<b>Target Implementation Date:</b>	30 <sup>th</sup> April 2025

# 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.