

**East Sussex**

**Local Government Pension Scheme**

**Internal Audit Strategy and Plan**

**2025/26**

## 1. Introduction

- 1.1. The East Sussex Pension Fund (“the Fund”) 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.
- 1.2. We (the Orbis Internal Audit & Counter Fraud Team) provide internal audit services to the Fund.

## 2. Objective

- 2.1. The objective of this Pension Fund Internal Audit Strategy and Plan (“the Strategy”), which is formally reviewed on an annual basis, is to provide the Fund with a consistent, risk-based approach to determining an internal audit programme for the Fund.
- 2.2. The Fund pools with another 10 funds as part of the ACCESS Pool, a collaboration of central, eastern and southern shires. As at 30 June 2024, the 11 members of the ACCESS pool held total assets of £63.3bn, of which £45.9bn was pooled. The ESPF had assets of £4.9bn of which £3.0bn was pooled.
- 2.3. On 14 November 2024, the Chancellor of the Exchequer delivered her first Mansion House speech, in which she announced major changes to local government pension schemes’ investments. These will require that the 86 Local Government Pension Schemes’ administering authorities consolidate all their assets into eight pools. It will also remove Pension Committees’ powers to make decisions relating to individual investments and place this responsibility, along with the monitoring of investment performance, with the pools themselves. It is intended that the new arrangements will be in place by March 2026. All the available options for delivering these changes will need to have been considered, risk-assessed, and new structures designed and implemented in collaboration with other LGPS investment pools by that deadline. Given that full details of the changes are not yet available, may also be subject to change, and the tightness of the proposed timescale, this may prove to be a challenging target.
- 2.4. The Council is in the process of implementing a new Enterprise Resource Planning (ERP) system, Oracle. This will replace SAP and require an interface with the pension administration system (Altair).
- 2.5. The Fund has been receiving professional investment advice from ISIO, but, following a tendering exercise in 2024, a new contract has been awarded to Hymans Robertson. However, with the implementation of the Chancellor’s proposed reforms, the responsibility for providing advice will transfer from the Fund’s appointed investment consultant to the LGPS’s pool.
- 2.6. The Fund’s actuary is Barnett Waddingham LLP, and 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 next actuarial valuation is due to take place in 2025.
- 2.7. In 2024/25, the responsibility for running the Fund’s pension helpdesk and pension payroll systems was transferred from Surrey County Council to the Fund itself. Where appropriate, our work will review the impact of these changes on controls.
- 2.8. County Council elections are due to take place in May 2025, which might result in changes to the membership of the Pension Committee. However, it now looks likely that these will be delayed to 2026 to take account of the Government’s reforms to local government. (Note: The Council has submitted, together with Brighton and Hove City Council and West Sussex County Council, a letter to Government seeking to be part of the Devolution Priority Programme and committing to

explore Local Government Reorganisation, which may lead to the May 2025 elections being deferred until 2026.)

- 2.9. The recent departure of the Head of Pensions, and other senior officers, increases the risk of a loss of organisational intelligence.
- 2.10. The Strategy seeks to provide assurance on the following aspects of pension fund activities:
- Governance Arrangements;
  - Preparedness for Pooling Reforms;
  - Investments; and
  - The Administration of Benefit Payments.

### **3. Approach**

- 3.1. The Strategy uses risk assessment as its foundation. On a periodic basis, risks are reviewed in consultation with the Chairs of the Pension Committee and Board, and with management, to identify any new risks. The risk assessment considers the materiality and significance of any changes, which may have a positive or negative impact. It should be borne in mind that the Fund is a material and fundamental financial system in its own right and, as such, should be subject to a level of coverage that complements the work of the Fund's external auditors.
- 3.2. The outcome of the risk assessment is an objective view of those areas of the Fund where the organisation requires assurance that risks are being managed effectively.
- 3.3. Throughout the year, there will be routine liaison between Internal Audit and officers representing the Fund to identify emerging risks and ensure that this Strategy continues to reflect the needs of, and risks to, the Fund.
- 3.4. Where appropriate, audit coverage will be varied from year to year. In areas where no significant findings were made in the previous year, the scope may be widened to other areas to maximise the breadth of coverage. For instance, where new policies have been introduced, we may review compliance with these.
- 3.5. We plan to deliver 75 audit days for the year 2025/26. This level of coverage will be kept under review to ensure that it remains appropriate to the needs of the Fund. Audits covered in previous years are presented in Appendix A. More detail of the coverage of the planned audit for 2025/26 is set out in Appendix B.

### **4. Professional Standards**

- 4.1. Audits of the Fund will be carried out in accordance with the professional standards set out in the Public Sector Internal Audit Standards. In our most recent assessment, undertaken by the Chartered Institute of Internal Auditors during the Autumn of 2022, we were assessed as achieving the highest level of conformance available against the professional standards (the highest of the IIA's three ratings), with no areas of non-compliance identified.

## 5. Reporting Arrangements

5.1. Internal Audit work will be reported in the following manner:

- Terms of Reference for each review will be drafted and agreed with management.
- Following our fieldwork, an initial draft report will be issued to management for its comments on factual accuracy and response to any issues and risks identified.
- A final report that includes agreed actions and implementation dates will be published to management.
- The results of audit work on the Fund will be reported:
  - o in full, to the Pension Board and Pension Committee; and
  - o in summary form, to the Audit Committee as part of our routine quarterly progress reports.

5.2. Audit work for 2025/26 will be reported in four separate reports (in addition to any specific follow-up audits where required), covering the risks detailed below:

- Governance Arrangements
  - Unclear delegations undermine the Fund's decision-making process, delaying decisions or resulting in poorer decision-making, potentially impacting return on investments.
  - The loss of Committee Members, or officers, results in the loss of organisational intelligence, weakening stewardship of the Fund.
- Preparedness for Pooling Reforms
  - The restructuring of investment pooling weakens internal controls and the Fund's ability to exercise stewardship of its assets, increasing the risk of poor performance.
  - Stringent timetables for significant change result in the Fund failing to comply with regulatory or structural requirements.
- Investments
  - Poor performance of the Fund's investments results in financial loss, the potential for liabilities not to be met and reputational damage.
  - Accounting of the Pension Fund is inaccurate, resulting in misstatement of the Fund's annual accounts.
  - Investment returns are not received in full and in a timely manner.
- The Administration of Benefit Payments
  - Inaccuracies or delays to pension benefit payments may cause financial loss to the Fund or financial hardship to members, and reputational damage to the Council.

- Poor data quality leads to inaccuracies in transactions, or a failure to meet statutory requirements, resulting in financial loss, and/or regulatory sanction.
- Poor or inadequate delivery of the pension administration service may result in financial loss, regulatory breach, or reputational damage to the Council and/or complaints by members.

## Previous Audits

In previous years, our work on the Pension Fund has included the following audits:

Name	Last Audited
Information Governance	2020/21
Altair - Application Controls	2021/22
The Implementation of Altair	2021/22
Pension Fund Governance	2022/23
I-Connect – Application Controls	2022/23
Cyber Security	2022/23
Cash Management	2023/24
Collection of Contributions	2023/24
Investments and Accounting	2024/25
Regulatory Compliance	2024/25
The Administration of Pension Benefits	2024/25
Financial Controls	2024/25