

# 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

Draft Report:

- Paul Punter, Head of Pensions Administration

Final Report:

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

- Susan Greenwood, Deputy Head of Pensions
- Ros Parker, Chief Operating Officer
- 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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## 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 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 31 March 2024, the Fund comprised 144 scheme employers, with 24,888 active employees, 35,240 deferred pensioners, and 25,288 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 2023/24, the scheme made benefit payments of approximately £169.5m. A total of £166.1m was received by the fund by way of members' and employers' contributions and transfers in from other pension funds.
- 1.6. This audit tested 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 2024/25.
- 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 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:
  - Data quality is sufficiently accurate to support transactions and reporting requirements.
  - The calculation of pension benefit entitlements is accurate.
  - Delivery of the pension administration service complies with statutory & regulatory requirements.

### 3. Audit Opinion

- 3.1. **Substantial Assurance is provided in respect of Pension Fund - Administration of Pension Benefits.** 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. Based on testing undertaken, we have been able to provide an opinion of **Substantial Assurance** over the controls in place. This is because:
- 4.2. Data validation is embedded throughout i-Connect, the Pension Fund's employer portal, and predominant method of employer data provision. In addition, data quality is monitored and forms part of the reporting requirements to The Pensions Regulator. The data accuracy levels reported at the time of the audit averaged 95%.
- 4.3. The service has implemented the use of robots to perform more straightforward tasks. Automation of these tasks reduces the potential for human error and releases staff capacity to perform more complex tasks.
- 4.4. Key processes are clearly defined and documented within process maps that accurately reflect the processes being defined.
- 4.5. Pension entitlements are processed accurately and are paid in a timely manner. The required supporting documentation is obtained and retained, with checks in place performed by a second officer to provide further assurance.
- 4.6. All agreed actions identified under the previous audit have been implemented in full.
- 4.7. Reporting of Key Performance Indicators (KPIs) to the Pension Board and Committee is accurate and transparent. Whilst performance is currently lower than KPI expected levels, this is largely attributable to a new, more stringent reporting methodology, that has increased transparency. Appropriate rationale is provided where expected performance levels have not been attained.
- 4.8. There were, however, some areas where controls could be strengthened.
- 4.9. The checklists utilised by the service for a range of transactions are not always completed in full to confirm they have received review and sign-off by an officer independent of the officer who processed the transaction.
- 4.10. Records of members' addresses are occasionally rendered inaccurate when they are overwritten by incorrect information, received via i-Connect, from employers whose records are out of date.
- 4.11. Review of users' access to the administration software, Altair, is not sufficiently robust to facilitate removal of users' accounts in a timely manner.

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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.	N/A	N/A
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	N/A	N/A
Low	This represents good practice; implementation is not fundamental to internal control.	3	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 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.

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

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>Changes of Address</b>  Members' changes of address can be notified by the member directly (by post, email or Member Self Service (MSS)), or via the records held by employers.</p> <p>A sample of members' changes of address was reviewed for accuracy, timeliness and to identify if Pension Administration Officers followed the correct process for the changes.</p> <p>The review identified cases where members had informed the Pension Fund Administration Team of a change of address, and this being updated accordingly, only for the new address to be overwritten by outdated records subsequently uploaded via i-Connect by employers, whose own records were out of date.</p>	<p>Where the address held for a member is not accurate, there is an increased likelihood of inadequate delivery of service, and regulatory fine due to breaches of the General Data Protection Regulations (GDPR). There is also an increased risk of reputational damage and financial loss.</p>	Low	<p>At the monthly PAT meeting on 13/03/25, 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> <p>The i-Connect team will be asked to be vigilant at trying to spot change of address that are overwriting recently updated addresses. Any identified cases should be investigated further.</p>
<b>Responsible Officer:</b>		Paul Punter – Head of Pensions Administration	<b>Target Implementation Date:</b>	April 2025

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

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	<p><b>Altair Users' Access Review</b></p> <p>A review of users with access to Altair, identified a user who had retained access rights despite having left the Council's employment. The user's access was revoked during the audit, upon the Pensions Administration Team becoming aware.</p> <p>Whilst users' access is reviewed, this is not undertaken at set intervals throughout the year but can be seen to be performed on at least an annual basis.</p> <p>It was found that some users retain access, authorised appropriately, yet have been inactive in Altair for more than two years.</p>	<p>Where users retain access when it is not appropriate, there is increased risk of unauthorised or fraudulent activity occurring. There is also an increased likelihood of reputational damage and financial loss resultant from fraud and regulatory fines, for breach of General Data Protection Regulations (GDPR).</p>	Low	<p>Access for this former employee was removed immediately upon becoming aware. There are regular audits of Altair access to ensure we pick up unreported leavers.</p> <p>The point about users not actively using the Altair system for an extended period is a good observation. This will be addressed in the next Altair access review expected to happen in April 25.</p>
<b>Responsible Officer:</b>		Paul Punter – Head of Pensions Administration	<b>Target Implementation Date:</b>	May 2025

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

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
3	<p><b>Independent Reviews of Checklists</b></p> <p>Testing across a range of different processes identified two instances where the checklists, used to guide officers through the processing of transactions, had not been signed off by an officer independent of the officer processing the transactions.</p> <p>Testing identified that, in the instances where checklists were not fully completed, the processes had been followed correctly, with appropriate checks having taken place, despite the checklists not recording this.</p> <p>In a separate case, it was found that an independent officer's checks had taken place and were recorded, but that the checks had failed to identify that incorrect bank details had been input for a member.</p>	<p>Where checklists do not record that independent checks have been completed, there is increased risk that the process has not been followed and an increased risk of fraud or error.</p>	Low	<p>At the monthly PAT meeting on 13/03/25, 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> <p>When approximately 25k tasks are processed there is an expectation of human error occasionally happening. In the case of the bank account issue, two numbers were transposed, the payment was returned and repaid correctly within a few days.</p>
<b>Responsible Officer:</b>		Paul Punter – Head of Pensions Administration	<b>Target Implementation Date:</b>	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.