

# Internal Audit Report

## Pension Fund Compliance with Regulatory Requirements

### Final

Assignment Lead: Jodie Hadley, Principal Auditor  
Assignment Manager: Danny Simpson, Principal Auditor  
Prepared for: East Sussex County Council  
Date: May 2025

## Internal Audit Report – Pension Fund Compliance with Regulatory Requirements

### Report Distribution List

#### Draft Report

Susan Greenwood, Head of Pensions  
Russell Wood, Pensions Manager: Investments & Accounting  
Dave Kellond, Compliance and Local Improvement Partner  
Paul Punter, Head of Pensions Administration

#### Final Report

As per draft report, with the inclusion of:  
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.

**Chief Internal Auditor:** Russell Banks, ☎ 07824 362739, ✉ [Russell.Banks@eastsussex.gov.uk](mailto:Russell.Banks@eastsussex.gov.uk)  
**Audit Manager:** Nigel Chilcott, ☎ 07557 541803, ✉ [nigel.chilcott@eastsussex.gov.uk](mailto:nigel.chilcott@eastsussex.gov.uk)  
**Anti-Fraud Hotline:** ☎ 01273 481995, ✉ [fraudhotline@eastsussex.gov.uk](mailto:fraudhotline@eastsussex.gov.uk)

# Internal Audit Report – Pension Fund Compliance with Regulatory Requirements

## 1. Introduction

- 1.1. East Sussex County Council (The 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 rules of the Local Government Pension Scheme (LGPS), which are set out in the following regulations:
  - The Local Government Pension Scheme Regulations 2013;
  - The Local Government Pension Scheme Transitional Provisions, Savings and Amendment Regulations 2014; and
  - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 1.2. The governance of the Fund is the responsibility of the East Sussex Pension Committee supported by the Pension Board, the ESCC Chief Finance Officer and the Pension Fund officer team. The day-to-day administration of the Fund is provided by East Sussex County Council.
- 1.3. This review was part of the agreed Internal Audit Plan for 2024/25.
- 1.4. 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 and operating effectively in order to support the following objectives:
  - Scheme governance arrangements, including clear separation between the Council's and Fund's responsibilities, meet regulatory requirements.
  - Employers' responsibilities are fulfilled to ensure the Fund complies with regulatory requirements

### 3. Audit Opinion

3.1 **Reasonable assurance is provided in respect of Pension Fund Compliance with Regulatory Requirements 2024/25.** This opinion means 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** in relation to the controls in place surrounding Pension Fund Compliance because:
- 4.2. The Pension Fund and Council are financially separate, with independent bank accounts and no borrowing or lending taking place between the two organisations.
- 4.3. Both the Pension Board and Committee are regularly presented with the Complaints, Breaches and IDRP Log, and are able to comment on or raise challenge in relation to its content, as required.
- 4.4. There is an appointed Investment Manager in place with appropriate skills to provide the required advice, supporting the Fund to make appropriate investment decisions which will benefit members and the Fund as a whole.
- 4.5. Payments to Fund Managers are subject to robust checking and paid in a timely manner, where receipt of these from Fund Managers is timeous.
- 4.6. There are, however, areas where improvements are required to aid and ensure compliance with regulatory requirements, including:
- 4.7. There is no Service Level Agreement in place between The Fund and The Council, as the administering authority. It is anticipated that a draft agreement will be in place soon, however, there has been an extended period during which the Fund has operated without any defined or documented agreement.
- 4.8. Whilst there are a range of processes in place to improve and ensure the quality of data held by the Fund, these are not formally documented in a Data Assurance Plan to ensure they are regularly implemented in line with expectations.
- 4.9. Not all Pension Board members have up to date conflict of interest declarations published in line with the Pension Regulator's Code of Conduct for Board Members, increasing the risk of conflicts materialising to the detriment of the Fund. There are also a number of officers working within the Fund who do not have conflict of interest declarations in place, as required by the Council's Code of Conduct and Conflict of Interest Policy.
- 4.10. Although there are a wide range of training courses available for Board and Committee members, uptake of these varies significantly, with some members participating in many more than others. There are no mandatory training elements defined within policies, increasing the risk of decisions being made without appropriate knowledge or understanding.
- 4.11. Policies in place and published on the Fund's website contain contact details for the previous Head of Pensions who is no longer in post. This may delay responses should members or pensioners make contact using these details, increasing reputational risks and the escalation of complaints.

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- 4.12. Whilst the Board and Committee have appropriate Terms of Reference within the Constitution, the versions contained within the Governance and Compliance Statement do not provide detail of the quorum for the Pension Committee which would aid transparency and clarity.

### 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. | 5  | 1-5 |
| Low                                   | This represents good practice; implementation is not fundamental to internal control.             | 1  | 6   |
| <b>Total number of agreed actions</b> |   | 6  |     |

- 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 the audit.

**Internal Audit Report – Pension Fund Compliance with Regulatory Requirements**  
**Detailed Findings**

| Ref                         | Finding   | Potential Risk Implication   | Risk                               | Agreed Action  |
|-----------------------------|---|--|------------------------------------|--|
| 1                           | <p><b>Service Level Agreement</b></p> <p>As the administering authority, East Sussex County Council is responsible for a range of tasks including:</p> <ul style="list-style-type: none"> <li>• The calculation and provision of pension projections and estimates;</li> <li>• Onboarding of new starters;</li> <li>• Handling, recording, and reporting of breaches, complaints, errors and omissions;</li> <li>• Production and publication of relevant communications;</li> <li>• Provision of quarterly and annual reports; and</li> <li>• Responding to general enquiries from scheme members and pensioners.</li> </ul> <p>There is currently no Service Level Agreement in place between the Pension Fund and East Sussex County Council, to support the provision of these functions. Although the document is currently being worked on, with a draft expected soon, there has been an extended period during which the Fund has operated without any defined or documented agreement.</p> | <p>Where the Fund is operating without an agreement in place with the administering authority, performance standards are not clearly defined and cannot be enforced, increasing the risk of non-compliance with regulatory requirements.</p> | Medium                             | <p>Work is in progress to establish this agreement. The Head of the Pension Fund is working with the Deputy S151 Officer to finalise this agreement.</p> |
| <b>Responsible Officer:</b> |   | Susan Greenwood, Deputy Head of Pensions   | <b>Target Implementation Date:</b> | 30 September 2025  |

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**Detailed Findings**

| Ref                         | Finding   | Potential Risk Implication  | Risk                               | Agreed Action   |
|-----------------------------|---|---|------------------------------------|---|
| 2                           | <p><b>Documentation of Key Functions</b></p> <p>There is knowledge within the team that is not clearly documented in policy or procedure documents, including:</p> <ul style="list-style-type: none"> <li>• No formally documented Data Assurance Plan or policy is in place to support the implementation of current data assurance processes.</li> <li>• The Discretionary Functions Policy states that there is ‘no policy’ for 16(10) of the LGPS Regs 2013, in relation to the requirement for a satisfactory medical before the payment of additional or shared cost pension contributions. No additional supporting information about the threshold for requiring medical assessments or how the decision would be made in these instances has been provided.</li> </ul> | <p>Where key functions undertaken by the team are not adequately and accurately documented, there is an increased risk of local practice and knowledge being lost, resulting in changes in service delivery, and increasing the risk of non-compliance.</p> | Medium                             | <p>A full review of governance is due to take place in Q4 of the 2025-26 financial year, which will include review of the policies and documentation detailed within this finding, amongst many other key governance processes.</p> |
| <b>Responsible Officer:</b> |   | Susan Greenwood, Deputy Head of Pensions  | <b>Target Implementation Date:</b> | 30 April 2026   |

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**Detailed Findings**

| Ref                         | Finding  | Potential Risk Implication  | Risk                               | Agreed Action   |
|-----------------------------|--|---|------------------------------------|---|
| 3                           | <p><b>Pension Board and Committee</b></p> <p>A wide range of training opportunities are available to members of both the Pension Board and Pension Committee in order to support the robust governance of the Pension Fund. Analysis of training records, however, identify that training is not always sufficiently well attended and there is no mandatory training that individuals must undertake in order to ensure a sufficient spread of skills across the Board and Committee.</p> <p>In addition, analysis also identified that not all members of the Pension Board have a published declaration of interest in place in line with the Pensions Regulator's Code of Conduct for Board Members.</p> | <p>Where declarations of interest are not clearly documented, there is an increased risk that personal or business conflicts may materialise to the detriment of the Fund or its members, or perception of such conflict may result in reputational damage.</p> <p>Where training courses are not mandated or well-attended, there is an increased risk that members of the Committee or Board are unable to exercise adequate oversight of the Fund.</p> | Medium                             | <p>We will continue to regularly remind members of the Pension Board and Committee of the availability of training and the need to ensure they are seeking and utilising available training.</p> <p>We will review training requirements for Members as part of the governance review later in the year.</p> <p>We will seek clarifications in relation declarations of interest for Pension Board Members.</p> |
| <b>Responsible Officer:</b> |  | Mariana Obetzanova,<br>Pensions Training<br>Coordinator   | <b>Target Implementation Date:</b> | 31 December 2025  |



**Internal Audit Report – Pension Fund Compliance with Regulatory Requirements**  
**Detailed Findings**

| Ref                         | Finding   | Potential Risk Implication   | Risk                               | Agreed Action   |
|-----------------------------|---|--|------------------------------------|---|
| 4                           | <p><b>Pension Administration Strategy</b><br/>                     LGPS Regulation 59 (6) requires that, where an administering authority publishes its pension administration strategy, or if strategy is revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable. There is no evidence that the most recent iteration of the Pension Administration Strategy was shared with the Secretary of State, and no knowledge within the team as to whether this was completed.</p> | <p>Non-compliance with LGPS regulations increases the risk of regulatory penalty, resulting in financial loss and reputational damage to the Fund.</p> | Medium                             | <p>We will review this and if no evidence can be found we will submit the Pensions Administration Strategy to the Secretary of State.</p> |
| <b>Responsible Officer:</b> |   | Paul Punter, Head of Pensions Administration   | <b>Target Implementation Date:</b> | 1 July 2025   |

**Internal Audit Report – Pension Fund Compliance with Regulatory Requirements**  
**Detailed Findings**

| Ref                         | Finding   | Potential Risk Implication  | Risk                               | Agreed Action  |
|-----------------------------|---|---|------------------------------------|--|
| 5                           | <p><b>Breach Reporting and Documentation</b><br/>                     The Fund hold a central log of breaches on which they record any breaches that have occurred and the action taken in relation to them; breach reports are then provided to the Pension Board and Committee on a regular basis. Detail provided in relation to the steps taken on breaches differs between these two documents, with the record provided to Board and Committee demonstrating that some breaches have been reported to TPR, whilst the log held by the team states that the same breaches haven't been reported, reducing clarity and increasing the risk of duplicate or non-reports, where these should be made.</p> | <p>Where the centrally held breaches log is not maintained appropriately, the risk of detail reported to Board and Committee being inaccurate is increased, and breaches may be subject to duplicate reports to the Pension Regulator where their reporting status is not clearly documented.</p> | Medium                             | <p>We have reviewed these two documents and have identified some discrepancies. This has now been addressed.</p> |
| <b>Responsible Officer:</b> |   | Dave Kellond, Compliance and Local Improvement Partner  | <b>Target Implementation Date:</b> | Implemented  |

**Internal Audit Report – Pension Fund Compliance with Regulatory Requirements**  
**Detailed Findings**

| Ref                         | Finding  | Potential Risk Implication  | Risk                               | Agreed Action  |
|-----------------------------|--|---|------------------------------------|--|
| 6                           | <p><b>Internal Dispute Resolution Procedure</b><br/>                     The Internal Dispute Resolution Procedure (IDRP) provides members with a formal complaints mechanism if they are not satisfied with any decision affecting their pension benefits held within the scheme, or where a decision has not been made by their employer or the Administering Authority when it should have been.</p> <p>Due to the nature of this policy, it is important to ensure that the Pension Board and / or Committee are sighted on and approve its contents; there is currently no evidence that this has been undertaken for the most recent policy version.</p> | Where the IDRP has not been subject to review and approval by the Pension Board and / or Committee, there is an increased risk of this not being suitable or adhered to in full, increasing the risk of further complaints or regulatory penalty. | Low                                | We will look further into this to ascertain if any approval has been given and, if required, schedule a review by Committee. |
| <b>Responsible Officer:</b> |  | Dave Kellond, Compliance and Local Improvement Partner  | <b>Target Implementation Date:</b> | 1 July 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.