

Internal Audit Report

Pension Fund - Administration of Benefit Payments

Final

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Prepared for: East Sussex County Council

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Internal Audit Report: Pension Fund - Administration of Benefit Payments

Report Distribution List

Draft Report

- Paul Punter, Head of Pensions Administration

Final Report

As draft report with the inclusion of:

- Susan Greenwood, Head of Pensions
- Ian Gutsell, Chief Finance Officer
- Ros Parker, Chief Operating Officer
- Pension Board
- Pension Committee

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. 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 31 March 2025, the Fund comprised 149 scheme employers, with 24,916 active employees, 35,223 deferred pensioners, and 25,397 pensioners.
- 1.4. Preliminary results of the 2025 actuarial valuation, subject to Pension Committee sign-off, found that the funding level had fallen, slightly, from 123% in 2022 to 117% in 2025. The Fund's assets and liabilities were valued at £5.07bn and £4.32bn respectively, a surplus of £0.75bn, compared with a funding surplus of £0.86bn in 2022. The actuarial report highlighted the significant improvement in data quality between 2022 and 2025, with the rating increasing from B+ to A.
- 1.5. During the financial year 2024/25, the scheme made pension benefit payments of £177.5m.
- 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 Strategy for Pensions for 2025/26 and has been delivered in compliance with the Global Internal Audit Standards and the Local Government Application Note.
- 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.
 - Previously agreed actions have been implemented.

3. Audit Opinion

3.1 **Substantial assurance is provided in respect of Pension Fund Administration of Benefit Payments.** This opinion means 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 integrated across i-Connect, the Pension Fund's employer portal and primary method for submitting employer data. Additionally, data quality is continuously monitored and included in reporting obligations to The Pensions Regulator.
 - 4.3. Key processes are well-defined and documented through process maps that accurately represent the procedures in place. Pension entitlements are calculated correctly and paid promptly. All required supporting documentation is obtained and retained, with additional assurance provided through checks performed by a second officer.
 - 4.4. Straightforward routine tasks are handled by robots. Automating these processes minimises the risk of human error and increases staff capacity to focus on more complex activities.
 - 4.5. Key Performance Indicator (KPI) reporting to the Pension Board and Committee is accurate and transparent. As noted in the 2024/25 audit, a new and more rigorous reporting methodology was introduced, which initially resulted in lower-than-expected performance figures. However, significant improvement has been achieved, with September 2025 reporting showing that 93.7% of cases were completed within the defined KPI parameters.
 - 4.6. All agreed actions under the previous audit have been implemented in full.
 - 4.7. There were, however, some minor areas where controls could be strengthened.
 - 4.8. 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.
 - 4.9. Following a change of address being reported, members' addresses are not always updated with complete accuracy.
 - 4.10. Tracking action on outstanding tasks is not always sufficiently robust to support timely progression.
 - 4.11. There are sometimes minor differences between Altair users' records, as recorded within Altair itself, and the service's own record of users.

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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. | 0 | N/A |
| Medium | Existing procedures have a negative impact on internal control or the efficient use of resources. | 0 | N/A |
| Low | This represents good practice; implementation is not fundamental to internal control. | 4 | 1 - 4 |
| Total number of agreed actions | | | 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. We shall reassess the progress of all (low, medium and high priority) agreed actions 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.

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Detailed Findings

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|--|------------------------------------|---|
| 1 | <p>Independent Reviews of Checklists</p> <p>Testing identified several instances where the checklists, used to guide officers through the processing of transactions, had not been fully completed 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> | Where checklists do not record that independent checks have been completed, there is increased risk of fraud or error. | Low | <p>At the monthly PAT meeting on 13/01/26, 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.</p> |
| Responsible Officer: | | Paul Punter – Head of Pensions Administration | Target Implementation Date: | 31/01/2026 |

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Detailed Findings

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|---|------------------------------------|--|
| 2 | <p>Tracking Action for Outstanding Tasks</p> <p>A review of outstanding tasks highlighted that action to progress a case is not always performed in a sufficiently timely manner.</p> <p>Of a sample of ten cases selected for testing, one had a due date that had lapsed by 17 days, without further action having been taken. In a further case, no action had been taken for four months in respect of an employer who had failed to respond to a request for information.</p> | Where outstanding tasks are not progressed in a timely manner, there is an increased risk of reputational damage. | Low | <p>The Pensions Management team have invested some considerable time to ensure the SLA reported to Board and Committee are totally transparent. The numbers presented include both the average time taken and longest individual case for each task monthly. The report also highlights the number of tasks outstanding at the end of each month.</p> <p>We set an expectation that not all work will be completed within SLA.</p> <p>Each member of the PAT has a monthly 1-2-1 meeting & the conversation includes a review of the work completed and outstanding. The PAT will be reminded at the 13/01/26 team meeting that outstanding task reminders are a low priority but still a necessary job that should be reviewed & progressed in a timely manner.</p> |
| Responsible Officer: | | Paul Punter – Head of Pensions Administration | Target Implementation Date: | 31/01/2026 |

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| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|--|---|------------------------------------|--|
| 3 | Changes of Address Upon being notified of a member's change of address, details are not always updated completely accurately within Altair, and members do not always receive a letter of acknowledgement following the change being actioned. | 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. | Low | <p>At the monthly PAT meeting on 13/01/26, 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 changes of address that are overwriting recently updated addresses. Any identified cases will be investigated further.</p> |
| Responsible Officer: | | Paul Punter – Head of Pensions Administration | Target Implementation Date: | 31/01/2026 |

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| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|-----------------------------|---|--|------------------------------------|--|
| 4 | <p>Altair Users – Records Reconciliation</p> <p>Periodic reviews of users with access to Altair are undertaken. A review of the system generated reports identifying all active users and the spreadsheet the service maintains, which details all current active users, found that they do not always reconcile completely. It was found that an active user was not identified on the service's spreadsheet.</p> <p>The user profile is only accessible to the Pensions Systems, Projects and Technical Manager and is a secondary account, utilised to verify that correct permissions have been applied to a newly created user's profile.</p> | Where records of users' accounts do not reconcile, there is an increased risk of a user retaining access when it is not appropriate, increasing the likelihood of unauthorised or fraudulent activity occurring. There is an increased risk of reputational damage and financial loss resultant from fraud and regulatory fines, for breach of General Data Protection Regulations (GDPR). | Low | <p>The user was a spare 'secondary' account used by the Project Team for UAT on projects. The team have been advised that the use of such users is fine, but they must be deleted as soon as the project testing is complete.</p> <p>There are regular audits of Altair access to ensure we pick up unreported leavers or changes.</p> |
| Responsible Officer: | | Paul Punter – Head of Pensions Administration | Target Implementation Date: | 31/01/2026 |

Appendix A

Audit Opinions and Definitions

| Opinion | Definition |
|------------------------------|---|
| Substantial Assurance | Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Reasonable Assurance | Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Partial Assurance | 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. |
| Minimal Assurance | 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.