

East Sussex

Local Government Pension Scheme

Internal Audit Strategy and Plan

2026/27



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 currently pools with another 10 funds as part of the ACCESS Pool, a collaboration of central, eastern and southern shires. As at 30 September 2025, the 11 members of the ACCESS Pool held total assets of £71.5bn, of which £54.7bn was pooled. The ESPF had assets of £5.3bn of which £3.2bn was pooled.
- 2.3. In 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 required that the 86 Local Government Pension Schemes’ administering authorities consolidate all their assets into eight pools. It also removed 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.
- 2.4. The government introduced its Pension Schemes Bill on 5 June 2025, and it is expected to receive Royal Assent in 2026. The government expects all authorities to have Shareholder Agreements in place by 31 March 2026 and for LGPS asset pools to be responsible for the management of LGPS Authority assets from 1 April 2026. Following extensive due diligence, on 24 July 2025, the Pension Committee agreed to focus its attention on becoming part of the Border to Coast Pension Partnership to comply with the provisions of the new legislation. The change would necessitate the dissolution of the existing ACCESS Pool, which brings with it a risk that the ACCESS Pool’s level of service deteriorates as it nears its end. Furthermore, the tightness of the proposed timescale may prove to be a challenging target.
- 2.5. The Government’s ‘Fit for the Future’ agenda is also driving changes to funds’ internal governance arrangements, and these changes are due to be implemented from the beginning of the 2026/27 financial year.
- 2.6. The Fund receives professional investment advice from Hymans Robertson. However, with the implementation of pooling reforms, the responsibility for providing advice will transfer from the Fund’s appointed investment consultant to the LGPS’s pool.
- 2.7. The Fund’s actuary is Barnett Waddingham LLP, and the most recent actuarial valuation of the Fund was carried out in 2025. The valuation found that the funding level had decreased slightly, from 123% in 2022 to 117% in 2025. The next actuarial valuation is due to take place in 2028.
- 2.8. As a result of Local Government Reform, the County Council elections, which were due to have taken place in May 2025, were deferred by a year. There is now uncertainty concerning the timing of elections, and they may be deferred again, pending a decision on the proposed new local government structure in East Sussex, which itself will involve complex changes.

- 2.9. The role of Internal Audit in the new structures and pooling arrangements remains unclear. The plan is based on the role as it now stands, but it may be that the role, and therefore the plan, will need to change as the year progresses.
- 2.10. The Strategy seeks to provide assurance on the following aspects of pension fund activities:
- Governance Arrangements;
 - Investment Pooling Arrangements; and
 - The Administration of Benefit Payments.

3. Approach

- 3.1. The Strategy is based on risk. 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 2026/27. 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 2026/27 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 Global Internal Audit Standards. In our most recent assessment, undertaken by the Chartered Institute of Internal Auditors during the Autumn of 2022, against the earlier Public Internal Audit Standards, 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 discussed with 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 2026/27 will be reported in three separate reports (in addition to any specific follow-up audits where required), covering the risks detailed below:

- Governance Arrangements
 - Uncertainty and unclarity during the 'Fit for the Future' agenda, including because of the speed of the changes required, undermine the Fund's decision-making process, delaying decisions or resulting in poorer decision-making, potentially impacting return on investments.
 - Changes to the governance structure at a time of significant change results in the loss of organisational intelligence, and uncertainty, weakening stewardship of the Fund.
- Investment Pooling Arrangements
 - Stringent timetables for significant change result in the Fund failing to comply with regulatory or structural requirements (including the failure to disentangle assets from the ACCESS Pool and reallocate them to Border to Coast / exit the ACCESS Pool cleanly).
 - 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.
- 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
I-Connect – Application Controls	2022/23
Cyber Security	2022/23
Cash Management	2023/24
Collection of Contributions	2023/24
Regulatory Compliance	2024/25
Financial Controls	2024/25
Pension Fund Governance	2025/26
Investments and Accounting	2025/26
The Administration of Pension Benefits	2025/26
Preparedness for Pooling Reforms	2025/26

EAST SUSSEX PENSION FUND - INTERNAL AUDIT PLAN 2026/27

Please note that the following provides a high-level scope of the work we are proposing. At the beginning of each review (as with all our work), detailed terms of reference will be developed in consultation with management.

Review Name	Outline Objective	Estimated Timing
Governance Arrangements	This review will focus on the controls in place to ensure that Pension Fund roles and responsibilities remain sufficiently well defined, documented and understood, following changes brought about by the 'Fit for the Future' agenda, to provide appropriate accountability and resilience. It will seek to provide assurance that the new governance arrangements, including changes driven internally, remain compliant with regulatory requirements.	Q3
Investment Pooling Arrangements	A review to provide assurance that appropriate governance and controls are in place to manage the new investment pooling arrangements, in accordance with legislative requirements. We shall also assess the extent of the assurance and reporting arrangements of the pool itself.	Q1/2
The Administration of Benefit Payments	We shall review controls to ensure that the right pension benefits are paid to the right people, at the right time. We shall test controls over transfers to and from the Pension Fund and the maintenance of the Fund's data. This will be a high-level review but will include a deeper dive into selected areas of risk.	Q3