

Essex Pension Fund – Administration Final Internal Audit Report

Audit Plan Ref: FT2 21/22

Audit Opinion:
Good Assurance

Date Issued: 14 March 2022

Function: Corporate Services

Audit Sponsor: Jody Evans, Director, Essex Pension Fund

Distribution List: **Nicole Wood**, Executive Director for Corporate Services; **Jody Evans**; **Sam Andrews**, Investment Manager; **Sara Maxey**, Employer Manager; **Amanda Crawford**, Compliance Manager; **Kelly Armstrong**, Contact and Customer Manager; **Daniel Chessell**, Retirement Manager; **Chris Pickford**, Pensions Systems Manager; **Holly Gipson**, Pensioner and Payroll Manager; **Cllr. Barker**, Chair of Essex Pension Fund Strategy Board and Investment Steering Committee; **Barry Pryke**, External Audit



1. Executive Summary

Assurance Opinion	No	Limited	Satisfactory	Good
				✓

Number of Issues	Critical	Major	Moderate	Low
	0	0	0	0

Audit Objective	Key Messages	Direction of Travel
<p>The audit's objective was to evaluate the arrangements in place to manage to reasonable levels, the potentially significant risk events and consequences relating to administering the Pension Fund and making pension payments.</p>	<p>The review assessed compliance with policies over key processes including adding new scheme members, transfers in/out, deferments, admitting new retirees onto the Payroll system, registration of deaths, payment of death grants, lump sum payments, amendments to members' information, payments, annual benefit statements, checking and authorisation controls. Sample testing and walkthroughs were performed, and documentary evidence was reviewed to support calculations, authorisation and separation of duties.</p>	<p>The Assurance Opinion remains at "Good", meaning that there continues to be sound systems of internal control in place. No actions have been raised in this report.</p> 
<p>Scope of the Review and Limitations</p> <p>The impact of change in working practices due to Covid-19 was considered throughout. The review covered 2021/22 only and did not assess the management and controls around the Essex Pension Fund (EPF) bank reconciliation. This area is covered within the reconciliations section of the Key Financial Systems audit.</p>	<p>Management override of controls and the risk of fraud or error was also considered, and no issues were identified. All tasks are carried out on the Universal Pensions Management (UPM) system. The effect of working from home was considered whilst assessing the control environment and testing of controls to ascertain if this had any negative impact on administration activities, however no issues were identified.</p>	
	<p>ECC's Corporate System 'TCS' (Financial Ledger system) moved over to 'My Oracle' in October 2021 which caused slight delay in completing the October General Ledger to UPM reconciliations, however audit testing confirmed that no delays were encountered since then.</p> <p>The impact of the McCloud court case and expected retrospective changes to benefits, requires significant additional information from employers relating to their employees/scheme members to enact the judgement. Evidence was available to support that work was underway to enable timely collation of information to help ensure compliance with any prospective legislative changes.</p>	

2. Explanation of Assurance and Risk Priority Levels

Assurance level	Assessment Rationale
Good	There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Actions will normally only be of Low risk rating. Any Moderate actions would need to be mitigated by significant strengths elsewhere.
Satisfactory	Whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk.
Limited	There are significant weaknesses in key areas of the system of control, which put the system/process objectives at risk. Improvement in the design and/or operational effectiveness of the control environment is necessary to gain assurance that risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious weaknesses and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Risk Priority Level		Definition	
Corporate	Critical	 Red	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, for example, reputational damage, significant financial loss (through fraud, error or poor value for money), intervention by external agencies and / or lack of compliance with statutory regulations. Remedial action is required immediately
Service	Major	 Amber	Audit findings indicate a serious weakness or breakdown in the control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently
	Moderate	 Yellow	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Prompt specific action should be taken
	Low	 Green	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. Remedial action is suggested

3. Further Information

Management Responsibility: 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 (IA) work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. IA endeavour to plan work so they have a reasonable expectation of detecting significant control weaknesses and, if detected, IA and Counter Fraud (CF) will carry out additional work directed towards identification of consequent fraud or other irregularities. However, IA procedures alone do not guarantee that fraud will be detected.

Following the Final Report: It is the owner's responsibility to ensure the agreed actions are implemented within agreed timescales and to update Pentana on a timely basis.

IA are regularly required to provide updates on the status of recommendations to the Audit Governance and Standards Committee, to the Corporate Governance Steering Board and to Functional Leadership Teams. We also receive ad-hoc requests for updates e.g. from the relevant Cabinet Member.

IA use the updates provided by Action Owners on Pentana for this purpose, so it is essential that progress is recorded regularly and accurately and when an action becomes overdue that a revised date to indicate when the action will be implemented is provided.

Audit Sponsor Responsibility:

- Approve the draft terms of reference to confirm their understanding and agreement of the risks, scope and nature of the review.
- Inform appropriate staff associated with the process under review about the nature of the review and what is required of them. Facilitate timely access to staff, records and systems.
- Approve and/or complete the Action Plan in the Draft Report and return to the Internal Audit Team within 15 working days to enable the Final Report to be issued promptly.
- Have oversight to ensure all agreed actions are implemented within the agreed timescales as recorded in the Action Plan in the Final Report.

Head of Assurance	Paula Clowes
Audit Manager	Sarah Harris / Stuart Coogan
Auditor	Murad Khan
Fieldwork Completed	February 2022
Draft Report Issued	1 March 2022
Management Comments Requested by	22 March 2022
Management Comments Received	11 March 2022
Final Report	14 March 2022