

Pensions Audit Sub Committee

2.30 p.m., Tuesday, 16 December 2014

Lothian Pension Fund – Internal Audit Update 2014/15

Item number	5.3
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide a summary of Internal Audit Activity during the period 1 April 2014 to 30 November 2014.

The activity planned for the financial year 2014/15 was based on the allocation of internal audit resource across the City of Edinburgh Council's (CEC) services and was approved by the CEC's Governance and Best Value Committee on 2 April 2014.

Three internal audit reviews are planned for the 2014/15 year:

- A review of the new payment system (Immediate Payments to Pensioners);
- A review of compliance with the Scheme of Delegation; and
- A review pension administration and record keeping

The review of Immediate Payments to Pensioners has been scheduled for the new calendar year by which time it will have been implemented. The other two reviews have been completed and the matters arising are considered in this report.

Links

Coalition pledges

Council outcomes

CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

Single Outcome Agreement

Lothian Pension Fund – Internal Audit Update 2014/15

Recommendations

- 1.1 Committee is requested to:
- Note the Internal Audit activity during the period 1 April to 30 November 2014
 - Note the matters arising from the two Internal Audit reviews undertaken in this period.

Background

Internal Audit plan 2014/15

- 2.1 The internal audit plan for the Lothian Pension Fund (LPF) was set out in the Internal Audit report to Pensions Audit Sub-Committee on 16 June 2014
- 2.2 The internal Audit plan is risk based, with a focus on governance, risk and controls. The areas identified for inclusion in the plan are determined following discussions with LPF management and examination of risk registers.
- 2.3 The plan for 2014/15 included three planned Internal Audit reviews:
- A review of the new payment system (Immediate Payments to Pensioners);
 - A review of compliance with the Scheme of Delegation; and
 - A review pension administration.
- 2.4 The review of Immediate Payments to Pensioners has been scheduled for the new calendar year by which time it will have been implemented. The other two reviews have been completed with reports and recommendations issued.

Review of compliance with the Scheme of Delegation

- 3.1 In order to assess the procedures & controls in place surrounding the Scheme of Delegation, Internal Audit conducted the following:
- Ascertained the existence of a Scheme of Delegation for the authorisation of investments and payments to scheme members and third parties;
 - Considered whether the Scheme of Delegation complies with Local Government Pension Scheme regulations and guidance from Scottish Ministers;
 - Ensured on a sample basis that Investments and Payments are being approved in accordance with the Scheme of Delegation; and
 - Reviewed on a sample basis the records in place to ensure that adequate records are maintained to demonstrate compliance with the Scheme of Delegation.
- 3.2 As part of our procedures we reviewed a sample of 25 purchases and sales of investments selected on a hap-hazard basis.
- 3.3 This review identified one finding, graded medium, in connection with the authorisation of batch transactions (where an individual transaction is implemented in smaller tranches). The Custodian's Portal (Trade Capture) does not enforce authorisation of funds transfers for batch transactions.
- 3.4 Management sought to address this gap in the automated controls within Trade Capture. Management requested that the Custodian upgrade Trade Capture to provide the functionality needed to ensure that all batch transactions require authorisation. This upgrade has now been implemented and all future batch transactions will require authorisation on Trade Capture in line with the Scheme of Delegation.

Review of pension administration

- 3.5 In order to assess the procedures & controls in place surrounding pension administration, Internal Audit conducted the following:
- Reviewed the controls surrounding the record keeping of member data including key personal details, employment dates, salary details and type of scheme membership;
 - Considered the controls ensuring payments to members are accurate and reflect entitlement; and
 - Reviewed the controls in place surrounding the data received from member employers, which allow calculation of liabilities, contributions and payments.

- 3.6 As part of our procedures, we reviewed a sample of 25 joiners, leavers, retirees and deaths selected on a haphazard basis.
- 3.7 The review identified two findings, both graded as medium. The first was in connection with contribution reconciliations from scheme employers and the second in connection with superuser access to the LPF's IT Operating system Altair.

Contribution reconciliations

- 3.8 The LPF has recently commenced monthly reconciliations of contributions paid by employers to data held by the LPF. This allows the LPF to check the accuracy of their data and identify any changes not communicated to LPF by an employer. This is a key part of the LPF's procedures to ensure that the LPF will be able to meet the revised regulatory data quality standards due to come into force in 2015.
- 3.9 The LPF has successfully transitioned 61 of their 101 employers to providing a monthly data set that allows this reconciliation process to occur. This transition process remains ongoing but of the scheme's 4 largest employers (City of Edinburgh Council, East Lothian Council, Midlothian Council & West Lothian Council), only Midlothian Council is close to successfully completing the transition process.
- 3.10 If the LPF cannot fully transition their employers to a monthly process, there is a risk that they may not be able to meet the forthcoming data standards. Management recognise this risk and are continuing to encourage and assist the remaining employers to transition, but ultimately this process cannot be fully within their control and will require the co-operation of the employers. The LPF is also looking at varying the administration fee structure, in order to incentivise employers to complete the transition.

Superuser access

- 3.11 Four individual users have superuser access to Altair. The nature of superuser access is such that these individuals have the ability to circumvent automated controls and divert funds. The activity of these users was not being monitored by the LPF. While no indication of any inappropriate activity by superusers was identified during our procedures, we would expect their activities to be monitored.
- 3.12 Management have moved to address this gap in the controls and have commenced the monthly monitoring of superuser activity by the Pensions and Accounting Manager.

Measures of success

- 4.1 Alignment of Internal Audit activity to the key risks faced by the LPF to ensure that governance is improved, managers take responsibility for corrective action and confidence in the management of risk is increased.

Financial impact

- 5.1 There are no direct financial implications.

Risk, policy, compliance and governance impact

- 6.1 There are no adverse impacts arising from this report.

Equalities impact

- 7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

- 8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

- 9.1 None.

Background reading / external references

Internal Audit reports, 'Scheme of Delegation' and 'Pensions Administration' issued in November 2014.

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Coalition pledges

Council outcomes CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

Single Outcome

Agreement

Appendices