

Pensions Audit Sub-Committee of the Pensions Committee

2.30 pm, Tuesday 16 December 2014

Present

Councillors Rose (Convener), Bill Cook and Orr.

Consultative Panel Members Present:

Eric Adair and Eric MacLennan.

1. Minute

Decision

To approve the minute of the Pensions Audit Sub-Committee of the Pensions Committee of 22 September 2014 as a correct record.

2. Agenda Planning

An overview of potential reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for March and June 2015 was outlined.

Decision

To note the agenda planning document.

(Reference – report by the Director of Corporate Governance, submitted.)

3. Report by the External Auditor on the Annual Report 2014 of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

The annual report from Audit Scotland on the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund was provided.

The corresponding management actions in response to the identified issues or risks were also considered.

A representative from Audit Scotland attended for this item.

Decision

- 1) To note the Annual Report on the 2013/14 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

- 2) To note the Action Plan at appendix 2 of the external auditor's report and seek appropriate updates on progress.
- 3) To agree that the plans for internal and external audit were developed in consultation with the Convener of the Pensions Audit Sub-Committee prior to consideration by the Pensions Committee in March 2015.
- 4) To recommend that the Director of Corporate Governance take more account of utilising the external independent adviser when organising training for Committee and Consultative Panel members. The training should also have an increased focus on the individual needs of the members.

(Reference – report by the Director of Corporate Governance, submitted.)

4. Lothian Pension Fund – Internal Audit Update 2014/15

A summary was provided of Internal Audit activity during the period 1 April 2014 to 30 November 2014.

Three internal audit reviews were planned for the 2014/15 year covering the new payment system, compliance with the Scheme of Delegation and pension administration and record keeping.

Decision

- 1) To note the Internal Audit activity during the period 1 April to 30 November 2014.
- 2) To note the matters arising from the two Internal Audit reviews undertaken in the period 1 April to 30 November 2014.

(Reference – report by the Chief Internal Auditor, submitted.)

5. EU Tax Claims

A summary was provided of the activity on EU tax claims made on behalf of Lothian Pension Fund. A further £207.2k had been settled since the previous update.

Decision

- 1) To note the progress made in reclaiming EU taxes suffered on dividends.
- 2) To recommend to the Pensions Committee that reports on EU tax claims should in future only be considered by the sub-committee and not both committees.

(Reference – report by the Director of Corporate Governance, submitted.)

6. Global Custody Services Performance

Northern Trust was the Fund's custodians and their key performance indicators for the 12 months ended 30 September 2014 were presented. The report concluded that

Northern Trust was currently meeting the needs of the three pension funds and their work was of a high standard.

Decision

To note the report.

(Reference – report by the Director of Corporate Governance, submitted.)

7. Investment Income Review – Cross Border Withholding Tax

KPMG had undertaken a benchmarking study into the effectiveness of the procedures in place to manage the tax exposure on the investment income of Lothian Pension Fund and Lothian Buses Pension Fund. The study identified two areas requiring further investigation – recovering further money taxed on US dividends and the speed of recovery for Swiss claims. The areas requiring further investigation had been raised with Northern Trust and their response was awaited.

Decision

To note the report and in particular the actions taken in regard to the withholding tax claims in Switzerland and the USA.

(Reference – report by the Director of Corporate Governance, submitted.)

8. Class Actions

A class action was when an investor agreed to act as a lead plaintiff in a case against a company. Details were provided of the recent activity in regard to class actions which could affect the Lothian Pension Funds. The number of class actions had reduced recently and were expected to continue to reduce as a result of a court ruling in 2010.

Decision

- 1) To note the update on class actions.
- 2) To recommend to the Pensions Committee that reports on class actions be in future incorporated into the Environmental Social and Governance reports and only reported to the main committee and not the sub-committee.

(Reference – report by the Director of Corporate Governance, submitted.)

9. Risk Management

A summary was provided on the Lothian Pensions Fund's risk management procedures, including details on the operational risk register and quarterly risk overview.

Decision

To note the Quarterly Risk Overview.

(Reference – report by the Director of Corporate Governance, submitted.)