

# Pensions Audit Sub Committee

8.30am, Monday, 26 March 2018

## Lothian Pension Fund – Draft Internal Audit plan for 2018/19

Item number	5.3
Report number	
Executive/routine	
Wards	All
Council Commitments	<a href="#">Delivering a Council that works for all</a>

### Executive Summary

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The purpose of this paper is to present the Lothian Pension Fund draft Internal Audit plan (the plan) for the period 1 April 2018 to 31 March 2019 to the Committee for approval.

A total of three reviews are included in the draft plan which is in line with Internal Audit coverage in previous years.

The Internal Audit plan has been developed using a risk based methodology to ensure that Internal Audit assurance activity is focused on Lothian Pension Fund's key risks. It should also be noted that Internal Audit is not the sole source of assurance provision for Lothian Pension Fund.

The current Internal Audit co-source arrangement with PwC will continue be used in 2018/19 where the required skills sets are not available within the IA team.

## Lothian Pension Fund – Draft Internal Audit plan for 2018/19

### 1. Recommendations

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Committee is requested to:

- 1.1 The Committee is requested to review the Lothian Pension Fund 2018/19 Internal Audit plan; and
- 1.2 Highlight any points that it would like raised at the Pensions Committee on 26 March 2018.

### 2. Background

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- 2.1 The Lothian Pension Fund (the Fund) Internal Audit (IA) plan is driven by Public Sector Internal Audit Standards (PSIAS) requirements; the Fund's organisational objectives and priorities; and an assessment of the risks that could prevent the Fund from meeting those objectives and providing pension services to employers and members.
- 2.2 The methodology used to create the Fund's IA plan is the same as that applied when developing the City of Edinburgh Council's (the Council) 2018/19 IA annual plan, which was approved by the Governance, Risk, and Best Value Committee on 20 March 2018. The Council IA plan also included details of the proposed 2018/19 Fund reviews.
- 2.3 It should also be noted that IA is not the sole source of assurance provision for Lothian Pension Fund, as assurance on risks faced by the Fund is also provided by external specialists. The Fund is currently preparing an 'assurance map' at the request of the Pensions Audit Sub-Committee, that will illustrate how assurance is provided from all sources across the Fund's key risks.

### 3. Main report

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- 3.1 The areas proposed for inclusion in the plan were identified by considering the key risks included in the Fund's risk register, and discussions with the Fund management team; the convenor of the Pensions Audit Sub-Committee; and the former Independent Advisor to the Pensions Committee.
- 3.2 The scope of the three reviews planned for the year to 31 March 2019 are detailed below:

	Audit Scope	Planned days	Risk Ref
1	<p><u>Unlisted investment valuations and application of fund administration fees and charges</u></p> <p>Review of the design adequacy and operational effectiveness of key controls supporting valuation of unlisted investment valuations. Review will focus on the consistency of the valuation process applied, ensuring that the valuation approach is aligned with applicable guidance, and also completeness and accuracy of the range of fund administration fees and charges applied by Lothian Pension Fund.</p> <p>This review will be performed by PwC specialists.</p>	20	Risk 1 Risk 24
2	<p><u>Unitisation</u></p> <p>Assessment of the design adequacy and operational effectiveness of the control framework supporting the unitisation process. The review will focus on ensuring appropriate segregation of assets; accurate allocation of cash flows; and accurate application of interest and charges. We will also consider completeness and accuracy of reporting to third parties.</p>	20	Risk 2 Risk 3
3	<p><u>Stock Lending</u></p> <p>Review of the design adequacy and operational effectiveness of key controls support stock lending. The review will focus on adequacy of collateral provided to mitigate counterparty risk; adequacy of transfer and title arrangements (in the event that LPF require return of the stock to address market risk or for early settlement); compliance with best execution requirements; controls to mitigate conflicts of interest; and completeness and accuracy of income received from the counterparty.</p>	20	Risk 13

3.3 Information Governance and readiness for the new General Data Protection Requirements (GDPR) that come into force in May 2018 remain key risks for the Fund.

3.3.1 It has recently been confirmed that the Fund will be registered under the Council's Information Commissioner's Office registration for GDPR with the Council assuming data controller responsibilities for the Fund.

3.3.2 Consequently, the Fund will be included within the Council wide GDPR readiness review currently being performed by the Information Governance Unit. The objective of this review is to ensure that the Service Areas across

the Council are fully aware of GDPR compliance requirements and have appropriate action plans in place to address gaps identified.

3.3.3 The Council's IGU GDPR readiness review is currently being audited as part of the 2017/18 IA plan, with additional assurance work included in the 2018/19 IA plan to confirm progress with implementation of GDPR action plans across the Council. The Fund is included in the scope of both reviews.

- 3.4 Given the significant value of assets managed internally (circa £4 billion at 31 March 2017), trading of investments remains a significant risk for the Fund. However, as a new front-office trading system will be implemented during 2018/19, a review of trading controls (including operation of the new trading system) will be included in the 2019/20 IA plan.

#### **4. Measures of success**

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- 4.1 Delivery of a risk based IA plan that provided assurance on the key risks facing the Fund and supports the 2018/19 Internal Audit Annual Opinion.

#### **5. Financial impact**

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- 5.1 No direct financial impact

#### **6. Risk, policy, compliance and governance impact**

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- 6.1 The IA plan has been prepared in compliance with the annual planning requirements specified by the Public Sector Internal Audit standards.

#### **7. Equalities impact**

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- 7.1 None.

#### **8. Sustainability impact**

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- 8.1 None.

#### **9. Consultation and engagement**

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- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.
- 9.2 The Fund management team; Convenor of the Pensions Audit Sub-Committee; and the former Independent Professional Observer to the Pensions Committee were consulted when developing the 2018/19 IA plan.

## 10. Background reading/external references

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### 10.1 [Public Sector Internal Audit Standards](#)

Quarterly Risk Summary presented to Pensions Committee

### **Lesley Newdall**

Chief Internal Auditor

E-mail: [Lesley.newdall@edinburgh.gov.uk](mailto:Lesley.newdall@edinburgh.gov.uk) | Tel: 0131 469 3216

## 11. Appendices

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None